

DISTRICT OF COLUMBIA APPROPRIATIONS FOR FISCAL YEAR 2005

WEDNESDAY, MAY 19, 2004

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 10:06 a.m., in room SD-138, Dirksen Senate Office Building, Hon. Mike DeWine (chairman) presiding.
Present: Senators DeWine, Hutchison, and Landrieu.

DISTRICT OF COLUMBIA

STATEMENT OF HON. ANTHONY A. WILLIAMS, MAYOR

ACCOMPANIED BY:

**LINDA W. CROPP, CHAIRMAN, COUNCIL OF THE DISTRICT OF CO-
LUMBIA**

NATWAR M. GANDHI, CHIEF FINANCIAL OFFICER

OPENING STATEMENT OF SENATOR MIKE DE WINE

Senator DEWINE. Good morning. This hearing will come to order.

Today, we will hear testimony regarding the District of Columbia's fiscal year 2005 local budget request. D.C. Mayor Anthony Williams, D.C. Council Chairman Linda Cropp, and the District's Chief Financial Officer, Dr. Natwar Gandhi, will present the city's budget and will discuss the District's requests for Federal resources.

I would like to note that last year the Senate passed a bill by unanimous consent which would give the District autonomy over its local budget, eliminating the need for the D.C. local budget to be passed on the annual appropriations bill. By decoupling the local budget from the Federal appropriations process, we will avoid delaying the city's local funds from being available whenever the D.C. appropriations bill is not passed before the end of the fiscal year, which occasionally does happen.

Senator Stevens, the chairman of the full Appropriations Committee; Senator Byrd, the ranking member of the full committee; Senator Landrieu, ranking member of this subcommittee; and I all cosponsored this bill. Unfortunately, the House has not considered a companion measure. So today we will not only hear city leaders present the priorities for the Federal payment, but we will also receive the city's local budget for our consideration and inclusion in the D.C. appropriations bill.

As we consider the local budget, I would like to congratulate the city leaders on the vote of confidence that they have recently re-

ceived from Wall Street. At a time when many local jurisdictions' bonds are being downgraded, the city's bonds were upgraded two steps, from BBB+ to A. So we congratulate the city and the city's leaders.

Despite this good news about the city's short-term financial performance, I think we are all well aware that the city faces a long-term economic structural imbalance, and that has been well documented. This imbalance represents a gap between the District's ability to raise revenue at reasonable tax rates and its ability to provide services of reasonable quality to its residents.

I recognize that the structural imbalance is driven by expenditure requirements and revenue restrictions, which frankly are mostly beyond the control of the District's leadership. Clearly, the city's revenue capacity would be larger without constraints on its taxing authority, such as its inability to tax Federal property or the income of non-residents.

I agree that the city faces a troubling problem in the long term, and I plan to hold a separate hearing on June 22 to begin to discuss ways that the city can address this problem. At that hearing, we will hear from business leaders, local officials and economists about ways to close this gap and ensure the long-term economic health of our Nation's Capital and the seat of our Federal Government. So we look forward to that hearing on June 22. I think it will be a very informative hearing and I think a very important hearing.

I note that some of our colleagues in the House, particularly some of our colleagues from Virginia, have taken the lead in this area and we congratulate them for that. Some of them will be testifying, as well, on that date and we look forward to their testimony. This will be, I think, a very important hearing and I think we will draw some attention to this very important issue.

I believe that the Federal Government must recognize the costs it places on the city and the burden it places on the city's infrastructure, all the while limiting the ability of the city to raise revenue. Indeed, many of the problems facing the city result from it being the seat of the Federal Government. As chairman of the subcommittee, I intend to work to explore and develop ways to avoid a financial catastrophe for the District of Columbia.

Now, we look forward today to hearing what the District's priorities are for Federal funding and how the city has used the funds we recently provided in the fiscal year 2004 appropriations bill. Clearly, there are many worthy activities which will place demands on the always limited resources in the D.C. appropriations bill, but we look forward to working with city leaders to fund a number of the city's initiatives and to continue to make life better for all who live, work and visit this Capital City.

As usual, witnesses will be limited to 5 minutes for their oral remarks. Copies of all written statements will be placed in the record in their entirety.

Let me now turn to the ranking member of the subcommittee and my good friend and colleague, Senator Landrieu.

STATEMENT OF SENATOR MARY L. LANDRIEU

Senator LANDRIEU. Thank you, Mr. Chairman, and I welcome all the leaders of the city, Mr. Mayor and members of the Council, and thank you all for being here this morning and for your hard work to help make the District the wonderful place it is to live and a wonderful place as an example for the Nation.

We thank you for your leadership and for acknowledging the very special and unique partnership that the District has with Federal officials. So we look forward to continuing to work with you across a broad array of issues, particularly on the transformation of the education system and reform here in the District; the renaissance of the Anacostia River waterfront; the rebuilding of the child welfare system; some additional general management principles that we have worked on; the financial discipline that this committee and others have helped, with your leadership, to bring to the city.

PREPARED STATEMENT

I am going to submit a more formal statement, Mr. Chairman, for the record to get us to our panel more quickly. I will wait for further comments until the question period.

Thank you.

[The statement follows:]

PREPARED STATEMENT OF SENATOR MARY L. LANDRIEU

I would like to welcome our witness and thank Chairman DeWine for calling the annual hearing on the District's local funds budget. I look forward to hearing from the city on the status of the District's economy, current Federal funding priorities and a summary of the fiscal year 2005 local funds budget.

The District has been careful to develop a consensus budget, and rather than adding funds to please every constituent group, has looked ahead to address looming budget pressures while maintaining priority services. At this time, almost every city in the country is struggling to maintain a balanced budget, much less deliver adequate or even good services to their citizens. The city is in good fiscal standing and I trust that this environment will continue. However, long-term economic pressures on the city and continued service challenges in such areas as public education and child welfare will require a different management approach. I am committed to developing a new partnership with the District to support building the Mayor's goal of building the population by 100,000 residents.

In addition, substantial Federal funding was provided to the District over the last 3 years, fiscal year 2002, fiscal year 2003, fiscal year 2004 (\$136.3 million in direct response to requests made by the Mayor, out of a total \$545 million in the D.C. appropriations bill for Federal responsibilities). The last 2 years have been unprecedented in the amount of discretionary Federal dollars that have gone to the city, as well as an increase in Congressional confidence in local leadership, resulting in increased autonomy for the District of Columbia.

In keeping with our mandate, the Committee must balance the State-level agencies we are legally responsible to fund and funding the priority needs of the city leadership. The Mayor has requested an additional \$253.5 million, above the \$71.3 million requested in the President's budget. Chairman DeWine and I share a commitment to the restoration of the Anacostia Waterfront, improving child and family services, assistance for charter schools, and enhanced security this year. In this hearing I hope we can identify the city's main priorities and how best to address them with very limited funding.

The fiscal year 2005 President's budget supports a wider array of local initiatives. Funding is recommended \$7 million for the Unified Communications Center, \$10 million for the combined sewer overflow initiative, \$3 million for the Anacostia Riverwalk and \$40 million for the three-sector School Improvement Initiative. I am interested to hear the city's view of two areas which the President requested that the Committee is seeking more information. The first, a request of \$10 million to

construct a new firehouse in downtown District of Columbia was not initially requested by the Mayor. The second piece we need additional information to is the \$15 million annual request for emergency planning and security; however, the President did not request any additional funds to address the inauguration. In 2001, the city was reimbursed for \$6 million in inauguration costs. I appreciate the views of the witnesses on these two areas. The Chairman and I have a challenge ahead to balance additional requests during a seriously constrained Federal budget outlook.

Last year, the General Accounting Office (GAO) confirmed a more broad challenge in a landmark report finding the city faces an annual deficit of \$400 million to \$1 billion between their revenue capacity and cost of providing average services. The report, requested by Congresswoman Norton and myself, found the underlying reason for the structural imbalance in the city's budget is the high cost of providing services in the District of Columbia. The Committee will review carefully the District of Columbia Fair Federal Compensation Act bill, introduced this month by Congresswoman Eleanor Holmes Norton, to reinstate an annual Federal payment of \$800 million to the District targeted for infrastructure needs. The GAO identified capital infrastructure suffers the most because a budget balanced on a thin line has no room to invest in long-term capital projects or the ability to borrow great sums.

The District is uniquely situated and requires a unique relationship with the Federal Government; the Committee should explore other options for funding: changing the tax collection ability of the District; funding directed to specific infrastructure; reevaluating State functions and taking over those agencies (like State education). We must examine the underlying issues that create an imbalance and take a multifaceted approach to addressing it, before the District goes back to years of deficit. I understand Chairman DeWine will call a hearing later this year on the structural imbalance and I look forward to working collaboratively with him on this complex issue.

One major benefit for the District, with no budgetary impact, endorsed by President Bush, is to release the local budget from annual Congressional approval—local budget autonomy. The concept of budget autonomy for the District's local budget is building momentum on the Hill and I hope it will be approved this year. These are funds derived from locally-generated tax dollars. The last word on how the city's budget is expended should be made by locally-elected leaders, just like any other city. I am pleased to say, with the hard work of the Governmental Affairs Committee, the endorsement of President Bush, the Senate passed the budget autonomy bill this Congress. I hope the leaders here and Chairman DeWine will join me to gain approval in the House.

I would like for the Mayor and Council Chairman Cropp to comment on how current and future general provisions—limitations on spending local and Federal funds—will be addressed under budget autonomy. I respect city leaders' diligence in implementing and upholding these "social riders" through the years, against local pressure. I expect that this same degree of respect for the law will be maintained in the future. There are legitimate means for Congress to provide guidance to the city; however it is my hope that at some point in the future Congressional interest in imposing riders will wane.

In addition, this year Chairman DeWine and I have investigated the Youth Services Administration and Child Services Agency. I understand the Mayor is developing a plan to transition the Oak Hill youth detention facility to another model which is better focused on rehabilitation, not just housing, of youth involved in the criminal justice system. I know the Chairman has a keen interest in this project and I am committed to bringing national programs and resources to bear.

The Committee also held a hearing last week on the charter school movement in the District. I was very encouraged to see proof that the District is far ahead of other cities or States in developing a strong charter school base. Now at nearly 20 percent of the public school population, charter schools are showing great innovation and have the ability to cultivate this innovation in traditional public schools. The Congress passed the first charter school law, the School Reform Act of 1995, overseeing the creation and oversight of schools. The Committee will be re-examining this law to see if there are additional support mechanisms needed to scale up the most successful charter schools. And by successful, I mean looking at the chartering principles, not just the test scores, to make graduates more employable or college-ready or self-sufficient. Congress will maintain the \$13 million investment in charter schools, as well as overseeing the \$1 in \$7 spent in public charter schools from Federal funds. I look forward to the input of local leaders as Congress evaluates the Federal charter law.

Finally, I am pleased to share with the Committee that the City Build Charter School Initiative, started in the fiscal year 2004 D.C. Appropriations Act, is about to take off. The City Build Initiative was created to support Mayor Williams' vision

of increasing the population by 100,000 residents. This can be done by retaining current residents who move to the suburbs or attracting new residents. Educational options are the primary factor that has been pointed to in why families relocate. If waiting lists or tuition are insurmountable, families will move to find better educational options for their children. City Build was created as a way to connect the economic and community development already underway in emerging neighborhoods with schools. The promise of quality schools is a tool to increase residential and commercial tax base of the city.

I am excited to see a plan developing in the city to identify neighborhoods that are ready for school investment and a process for creating schools. I am pleased to have benefited from the resources of the Brookings Institution's Greater Washington Research Program, led by Dr. Alice Rivlin and David Garrison. Their research has identified 12 neighborhoods in the midst of or which are ready for revitalization that would benefit from more schools. I look forward to continuing this partnership this year in standing up the new City Build Initiative.

In addition to the \$13 million provided for charter schools and \$14 million provided for scholarships to private schools in the fiscal year 2004 D.C. Appropriations Act, the Congress supported an unprecedented investment of \$13 million in public education. The conferees agreed that these funds would be used to raise academic achievement of students and strengthen leadership and instructional excellence. The plan transmitted by the D.C. Public Schools lacked the detail necessary to justify these funds and, for the most part, did not meet the mandate set by Congress. The Committee is currently reviewing this plan and will provide guidance as soon as possible. However, I think it is worth noting to this panel, the elected leadership of the District and the independent Chief Financial Officer, that our ability to continue supplemental funding for public schools is severely impacted by this lackluster plan. I think the Committee should recognize that no one on this panel has control over the schools' choices on how they spend their budget. This disconnect has become very clear to Congress.

I look forward to the testimony of our witnesses and hope that we may continue the strong partnership developed over the last 3 years.

Senator DEWINE. Senator Hutchison, any opening statement?

STATEMENT OF SENATOR KAY BAILEY HUTCHISON

Senator HUTCHISON. Thank you, Mr. Chairman.

I am so, so happy about the bond rating upgrade. For the first time in the recent history—I can't say all the way back, but for the first time in recent history you have an A rating across the board from every rating agency. I commend the Mayor, Chairman Cropp and Dr. Gandhi for really making some tough calls to assure that your financial stability is in place. You had hard choices and I so appreciate that you have worked with our committee every time you have had a hard choice to make sure that we knew everything that was happening.

I think the building up of the reserves which was mentioned by all of the rating agencies as something that I and this committee had really asked you to do—and you have done it really even before the timetable that we set, and I think that played an important role in those upgrades.

I just want to say that this is going to help the city lower its cost of borrowing, which means more money will be available for the programs and the needs of the city. I think it is going to show a stability that will attract more business to the city and more taxpayers to the city. So I think it is a win for everyone.

I want to say that I have been working with Dr. Gandhi over the last few weeks. He has asked for some adjustments in the reserves and I have worked with him and the rating agencies to assure that there could be some small changes that would give you more flexibility in the city, but yet keep the conservative approach.

I am going to recommend that there be some changes. Basically, those changes would be to adjust the definition of expenditures so that the calculation of reserves excludes debt service, allows the calculation of the reserve amount to be based on the prior year actual ending expenditures rather than projected expenditures, reduces the total reserve requirement from 7 percent to 6 percent.

Seven percent was more than most cities in our country have, but when we were working with B and very low ratings, that was very important to show that we were serious to the rating agencies. But now that we are A across the board, I think 6 percent is quite reasonable, and the rating agencies agree with that. So that will give you, I think, more leeway. And then we would extend the repayment period from 1 year to 2 years, no less than 50 percent in the first year if you have to repay the reserves. So that also gives you, I think, more flexibility.

I want to say that Dr. Gandhi has really been a leader in this. He asked for some changes, knowing that the Mayor and the chairman had wanted more flexibility, and I think we have come to terms that will be very favorable, but also still quite conservative and in line with the A ratings that you have.

So I could not be more proud of this city from the financial standpoint than I am because you just worked so closely with us. You took leadership positions and I commend you, and I think it is going to be a great benefit in the long term for the city.

Thank you, Mr. Chairman.

STATEMENT OF SENATOR PAUL STRAUSS

Senator DEWINE. Senator, thank you very much.

Senator Strauss has included a statement to be inserted in the record as well.

[The statement follows:]

PREPARED STATEMENT OF SENATOR PAUL STRAUSS

Chairman DeWine, ranking member Landrieu, and others on the subcommittee, as the elected United States Senator for the District of Columbia, I would like to take this opportunity to provide this statement on behalf of my constituents.

Due to our lack of self-determination, we are unable to provide or fund certain government services on a local level. As long as Congress continues to utilize city services, it has an obligation to fully fund our city budget. I would like to address the District's fiscal year 2005 local budget request to Congress. The hearings for this budget have been held in the D.C. Council, and are subsequently fundamental to the operation of the city. It is essential to the District that Congress pass this budget in time for the new fiscal year 2005, and avoid being caught up in Continuing Resolutions. When the District of Columbia's budget is held up, needed spending adjustments are not allowed to be implemented and the cost of debt services increases. Each day, our local government services suffer greatly when the budget is held up.

The dilemma of our budget being held up every year can be resolved through budget autonomy. I appreciate the Senate passing this bill. I wish the House of Representatives would also vote to allow the District Budget to be separated from the Federal Appropriations Process. This step should be furthered, as our local budget has nothing to do with Congress. Since fiscal year 1996, the District of Columbia has continuously provided Congress with a balanced budget. The District has demonstrated itself as a competent, governing body, which should allow itself the right to reject all policy interference and social riders attempting to regulate the government within the District. It should be the privilege and priority of the government of the District of Columbia, not Congress, to make the District's economic decisions. Although it is presently a constitutional prerogative of Congress to exercise oversight of the District and its budgetary needs, it is not always appropriate.

The District of Columbia has submitted a budget that calls for serious investments in public services and education. Mayor Williams, Chair Cropp, and Chief Financial Officer Gandhi have explained the specifics in great detail and I support their efforts in the budgetary requests of the District of Columbia.

Congress should have a focus on the District of Columbia's budget, in respect to resolving the structural imbalance of the budget. This major problem concerning the budget is the gap between the District's ability to raise revenue at reasonable tax rates and the ability to provide services of reasonable quality to its residents jeopardizes the District's ability to retain residents. Instead of being penalized for residing in the District, citizens should receive the same constitutional rights as all American citizens.

The government of the District of Columbia needs to be fairly compensated by Congress for the services it provides to Federal agencies. This would serve as a solution to the structural imbalance within the District's budget. The District's budget represents the citizens of the most unique city in the Nation. The District has repeatedly provided Congress with a budget that has proven both sensible and attainable. The outlook for the current fiscal year 2005 is projected as balanced with a surplus. The District government is by itself the best evaluator of local expenditures. The reoccurring record of balanced and responsible budget management during times of economic hardships and declining revenues is yet another fact that proves the District's elected officials can govern the District. Not allowing the District to have complete control over its spending only increases the structural imbalance, therefore discouraging citizens.

The elected officials are persistent in attaining locally raised revenue needed to fund various local interests such as public service and education. The city should be allowed to utilize tax dollars in a more flexible manner. This in turn would give the District government the opportunity to provide the community greater benefit from the revenue. Flexible use of revenue specifically secures and stabilizes public service departments within the city. My constituents have the right to receive the needed revenue to meet their children's educational needs. I urge you to approve the proposed budget, as it is deemed necessary to aide the District's schools. The District of Columbia has submitted a timely budget so Congress has appropriate time to approve it. I ask again that Congress pass this budget before the beginning of the fiscal year. It is unfair to the District and its constituents when Congressional delays disrupt critical improvements within the local area.

Thank you again for the opportunity to present this statement. This local budget was optimally drafted in order to benefit the citizens of the District of Columbia. I support its prompt passage without riders or amendments. In closing, let me thank a member of my legislative staff, Merin Rajadurai, for his assistance in preparing my testimony this morning.

Senator DEWINE. Mayor, would you like to come up, and Chairman, Doctor? We appreciate you all joining us very much. It sounds like we do have some good news.

Mayor, why don't you start off? We have your written statement and we appreciate it very much, and if you could just summarize for us and give us the highlights.

STATEMENT OF HON. ANTHONY A. WILLIAMS

Mayor WILLIAMS. Yes, Mr. Chairman, I notice that you have said about three times that you would just like the highlights. So I will take that instruction and I will submit my written testimony for the record and will share with you and with Ranking Member Landrieu and certainly Senator Hutchison some of the highlights.

But I want to take this opportunity as Mayor of the city to thank the committee, No. 1, for its support for budget autonomy for our city, and you, Mr. Chairman, for your leadership in calling for a hearing on the long-term structural imbalance issue.

Senator Landrieu, thank you for your leadership in many, many different areas, particularly with the Anacostia River and with education.

Senator Hutchison, I have worked with you since the time I was CFO and I remember talking with you one night asking for mercy

from the reserve requirement. You did not grant that mercy and, in retrospect, you were right and I was wrong. So we are in much better shape because of it. I thank you, though, for your willingness to work with Dr. Gandhi and provide those adjustments. I think they are welcome. Certainly, as former State treasurers, both you and Senator Landrieu, your comments on our fiscal status are taken to heart by this Mayor.

In fact, though, Mr. Chairman and members of the committee, we are doing better, but there is still more to do. Because of the structural imbalance, the mismatch between long-term revenues and expenditures in the District, three things are happening in our city.

First, because of the artificial restrictions on our revenue base against State expenditures and requirements as a Federal city, we end up over-taxing about half of our tax base, and that is not healthy for the long-term future of the city. We would like to have lower tax rates, and Council Chair Cropp has been a leader in that effort along with the Council.

Secondly, because of this situation, we have the second highest per-capita debt of any city in the country, second only to New York City. This again reflects a mismatch between long-term revenues and expenditures. Because of this mismatch, because we are at the limit of what we can borrow, we have under-invested and we are deferring massive investments in critical services and infrastructure. Approximately \$2.5 billion of infrastructure has been deferred, including renovating crumbling schools, repairing the sewer overflow in the Anacostia River, fixing roads, and putting in place needed security systems to keep residents and visitors alike to our city safe.

The major initiatives in our local budget include education. We remain proud of our robust charter school movement which educates approximately 20 percent of the school-age children in the city. Under our leadership, the local facilities allowance for public charter schools has increased by almost 400 percent, from \$617 per student in 2000 to about \$2,400 per student in the proposed budget before you.

There is still more work to do, but we have been working with the subcommittee and the charter school community to launch the exciting City Build initiative which was funded by this subcommittee, and Senator Landrieu deserves enormous credit for that. But in education, we are working to expand early childhood education, to expand after-school and out-of-school activities; working to create five new transformation schools, where we have shown improvement in test scores; creating eight new charter schools; and upgrading school security.

In the public safety area, we make room in our local budget to continue to fund our full complement of 3,800 officers, to reconfigure our patrol service areas, to build our Office of Unified Communications, and to work toward civilianization of our force. A remaining challenge before us is working with the Council to reform our disability procedures and processes in the department. We think with an additional investment there, we can put an additional roughly 200 officers on the street.

Opportunity for all is a major commitment of mine as Mayor of the city, and we have put in place additional funds for the Youth Services Administration, particularly for reform laying the groundwork for replacing the current Oak Hill facility with a smaller, state-of-the-art facility. And I applaud you, Mr. Chairman, for your leadership on that effort, and for your steadfast oversight.

There are a number of requests we have made to the Federal Government in the Federal appropriations area; one is the Tuition Assistance Grant program. We are asking for a request to fully fund this program at a level of \$25.6 million above the President's mark of \$17 million. This has been a very successful program and honoring this request will avoid having to either limit the program on an income basis or to limit the program on a pro-rata basis. This has been a very successful program and we would like to continue its upward path.

Bioterrorism and forensics laboratory. Every city in the Nation has access to such a facility, as provided by their State. Many major facilities have their own. This is a critical public safety investment and we are requesting \$9 million to move down the road for the planning and design phase of this lab. After the 4-year period of capital investment, we are prepared to commit the \$40 million, roughly, a year to operate this.

We ask for dollars for the WMATA subsidy. What we have found, members of the committee, is that over the years the Federal Government has reduced its support for transportation in urban areas. States have increased their support. The District, because of its peculiar situation, is at a loss here. Maryland and Virginia are increasing their support. The Federal Government is diminishing its support.

So we are at the core of the Washington area and the center of Federal operations and have an enormous hit on our budget because of the amount of the subsidy. This is again a State function. It is something that benefits the Federal Government and its workers and makes us a healthy and livable region.

Next to last, Mr. Chairman, we ask for an increase in the Public Safety Event Fund. We have received from the President \$15 million. We are asking for an allocation of \$25 million, primarily and essentially because of the inauguration. With the expenses for the inauguration, post-September 11, we expect to easily absorb this additional amount. This is a one-time request for this addition and we would ask for the committee's support.

Last but not least, in the area of public school security we have seen what has happened in our public schools, particularly at Ballou High School. We have developed with our chief and in consultation with school officials a detailed public safety plan and are requesting from the Federal Government \$15 million to assist us in this effort.

PREPARED STATEMENT

Again, I want to thank the committee for its support for budget autonomy as we move toward the road for full democracy in the District. With that, I would be happy, after the other testimony, to answer each and all of your questions.

[The statement follows:]

PREPARED STATEMENT OF HON. ANTHONY A. WILLIAMS

Chairman DeWine, Ranking Minority Member Landrieu, and other distinguished members of this subcommittee, I would like to thank you for the opportunity to testify before you today in support of the District of Columbia's fiscal year 2005 budget and financial plan. It has been particularly rewarding to work with you, Chairman, and this committee over the past year. The strength of State and local government experience you bring to your oversight responsibilities, along with your dedication to the District of Columbia, provide this panel with an opportunity to make a difference in the lives of citizens of the District of Columbia and make our Nation's capital an even more rewarding place to reside, work, and visit. My remarks this morning will focus on three main goals we have for working with this subcommittee:

- promoting the fiscal strength of the District despite a difficult national economy and a long-term structural imbalance caused by Federal restrictions;
- passing a local funds budget that provides for citizen priorities; and
- seeking critical Federal investments relating to services for our residents and our special status as the Nation's capital.

I will begin by discussing our efforts to overcome fiscal challenges.

OVERCOMING FISCAL CHALLENGES

The District has worked hard to overcome many fiscal challenges over the past decade. Some have been of our own making, others have been a matter of circumstance, affecting States and localities across the country, and others have been imposed by the Federal Government. Under my leadership, along with the legislative stewardship of our Council, led by Chairman Linda Cropp, and the fiscal guidance of Natwar Gandhi, Chief Financial Officer, there are few States or localities that have accomplished more in such a short period of time.

Fiscal year 2003 marked the District's seventh consecutive balanced budget. In April, the District received a two-notch upgrade in our bond rating from Moody's Investor Service and now all three rating agencies rate the District as grade A investment material. Over the last 4 years, as States and cities have weathered the deepest financial crisis in 60 years, the District has continued produce balanced budgets and has managed to increase our cash reserves, which totaled over \$250 million at the beginning of this fiscal year. Our steady accumulation of reserves despite difficult times is due in no small part to the diligence of Senator Hutchison, who has advocated for robust and secure reserve funds. These reserves have served the District well and have contributed to our string of ratings upgrades. I would also like to thank the senator for considering our proposal to restructure our cash reserves this year and hope that she and this subcommittee will support our proposal. This proposal, which is part of our budget request, would reduce our overall reserve requirement from 7 percent of total expenditures to 6 percent and extend the period over which the District can replenish the reserve from 1 year to 2 years. Even with these modifications, the District will have sound and stable cash reserves when compared to States across the country.

We have also achieved these accomplishments despite a long-term structural imbalance estimated by the General Accounting Office to be between \$470 million and \$1.1 billion per year. The GAO cites multiple factors causing this imbalance: the high cost of providing services in the D.C. metropolitan area, the relative poverty of our population, and Federal restrictions on our revenue collection authority.

So what explains this apparent paradox? How can the District achieve remarkable financial performance, yet still face this structural imbalance? The answer is twofold. One, our residents are among the most heavily taxed in the Nation, and two, the District is deferring massive investments in critical services and infrastructure. This is perhaps the most important point in my testimony today, Mr. Chairman and members of the committee, so I believe it bears repeating. In order to balance our budgets and fund our reserves, the District is deferring massive investments in critical services and infrastructure.

What is the magnitude of this deferral? Approximately \$2.5 billion of infrastructure has been deferred, including renovating crumbling schools, repairing the sewer overflow, fixing roads, and putting into place the needed security systems to keep District residents and visitors safe.

As we seek solutions to address the structural imbalance and address our long-standing problems, it is clear that taxing our residents more or providing fewer services are not viable alternatives. Though the GAO report noted areas where the District needs to improve management efficiencies, the report is quite clear that this deficit would exist under any management structure and even if operational efficiencies were improved even more. One option proposed by the GAO is a change in

Federal policy to expand the District's tax base or to provide additional financial support.

Earlier this month, at the request of this committee I submitted a report to you that laid out a comprehensive plan for addressing structural imbalance in the District of Columbia. This report presented several alternatives for addressing the imbalance and highlighted one very promising vehicle, a bill recently introduced by Representative Eleanor Holmes Norton, the "District of Columbia Fair Federal Compensation Act of 2004". This bill would provide the District with an annual dedicated Federal payment of \$800 million a year dedicated to transportation projects, debt service payments, public school facilities, or information technology investments. This approach to redressing the District's structural imbalance would allow the Federal Government to invest in infrastructure that benefits the Federal Government itself, the Washington metropolitan area, as well as the District of Columbia. Mr. Chairman, I very much appreciate your commitment to find a workable solution to this problem that threatens our long-term fiscal viability. In addition to addressing the Federal contribution to our budget, we also need to repair the Federal process for reviewing our budget. As you know, last year the Senate unanimously passed a budget autonomy act for the District. This legislation, besides being a well-deserved boost for us Home Rule advocates, would significantly streamline and rationalize our budget process by allowing the city to better align local funds with oftentimes unpredictable and shifting needs. This legislation would put a permanent end to long delays where the District budgets resources to respond to new service needs, but those dollars are tied up in seemingly endless continuing resolutions. This bill would also allow the District to better align our fiscal year with the Federal grant cycle and school year, as are most local jurisdictions. This would eliminate a massive number of administrative burdens. Therefore, we are hopeful that the House of Representatives will follow the Senate and pass the same bill. Without the support of Chairman DeWine and Senator Landrieu, as well as Senators Ted Stevens and Robert Byrd, this historic legislation would not have been possible, so I offer special thanks to you all. Having set the context, I will now discuss the fiscal year 2005 budget for the District.

FUNDING CITIZEN PRIORITIES

Over the past year our citizens have articulated their priorities in citizen summits and town hall meetings across the city, and this budget is the manifestation of those discussions. Our residents are calling for better education, public safety, health care and housing, and this budget makes critical investments to improve services in these areas. As a result, the growth of funding in this budget is focused on improving critical services, perhaps the most important of which is public education.

As I'm sure you noted, local leadership had a very robust debate in formulating this budget, and one of the topics discussed was the appropriate level of expenditure growth. After a healthy debate the Council approved a budget that funds the operations of government.

While growth in the budget appears dramatic at first glance, the true story is much less severe. Almost half of the growth in the budget funds one-time investments such as fulfilling court orders, paying for debt service from prior-year investments, and funding Medicaid cost increases. To manage the growth of Medicaid expenses we have new leadership in place, which includes a new Medicaid director and a director of our new Office of Medicaid Operations Reform. Our new leadership has led an effort to bring expertise and accountability to the District's Medicaid office and public provider agencies. We are implementing the recommendations from our prior-year Medicaid audits, we have made significant improvements to our Medicaid budget development process, and we have improved our approach for billing for Medicaid services. In the following discussion I will discuss key initiatives included in this budget.

EDUCATION

Since my first budget as Mayor, I have increased the funding for public education by almost 60 percent. In addition to stabilizing funding for District of Columbia Public Schools despite continuing decline in enrollments, our fiscal year 2005 budget provides record funding for charter schools. Despite these investments, I continue to be concerned with the quality of education we are providing to our children, and I am particularly concerned with how DCPS has managed its budget. To address these concerns, I have introduced legislation that would streamline the accountability and governance of our public schools by creating a chancellor position that reports directly to the Mayor with oversight from our City Council. Based on feedback from Council members and the general public, I am refining that proposal to

also create an elected State board of education that would have considerable State-level powers. I am encouraged by the increasing number of Council members who voted against the status quo at yesterday's legislative session. This indicates momentum in the direction of meaningful change. I look forward to continuing to work with the Council to reach agreement on a new governance structure soon. I hope we can rely on expedited consideration by the Congress of any legislation passed by the Council that would require a change in our Home Rule Charter. My efforts to recruit the best chancellor possible and strengthen the accountability structures around that new position are just part of my effort to improve the educational opportunities available to our children.

In addition, the city remains extremely proud of its robust charter school movement, which educates approximately 20 percent of the school-age children in the city. Under my leadership, the local facilities allowance for public charter schools has increased by almost 400 percent, from \$617 per student in 2000 to over \$2,400 per student in the proposed budget before you. We have also been working closely with this subcommittee and the charter school community to launch the exciting City Build initiative, which was funded by this subcommittee and will provide five charter schools with \$1 million for their facilities in the coming months. Senator Landrieu deserves tremendous credit for her work on this program, and on charter schools in general.

In summary, the fiscal year 2005 budget includes several new education initiatives, including:

- expansion of early childhood education,
- expansion of after-school and out-of-school activities for children and youth,
- creation of 5 new transformation schools in the D.C. Public School system,
- creation of 8 new public charter schools, and
- an upgrade of school security.

In addition, the District's new federally-funded scholarship program is unfolding quite well and has received approximately 1,500 applications from eligible families. Over 40 schools have submitted school commitment forms to participate in this program and more are expected to join. Based on these rough numbers we anticipate that will be able to meet our goal of serving approximately 1,700 students. The Washington Scholarship Fund, which is administering the program, is currently working with the program evaluation team, and the Department of Education to assess the number of slots and eligible participants to determine whether a lottery will be necessary for specific grade levels. I am confident that if such a lottery process is employed it will be consistent with the intent and priorities identified in the legislation.

PUBLIC SAFETY

On May 3, our city suffered the tragic death of 8-year-old Chelsea Cromartie. Chelsea's murder was a senseless cowardly act of violence and unfortunately, it was not an isolated event. This year, 13 more of our children have been victims to senseless murders. The District's response has been aggressive: we continue to fund 3,800 officers, we have conducted a new Patrol Service Area plan to enhance police deployment in our neighborhoods, and we have established the Office of Unified Communications to coordinate our emergency responses, and we have just launched a major new effort to concentrate resources from across the government on crime "hot spots" in order to make fundamental change. Recently I also introduced legislation at the end of last year to reform the District's juvenile justice system. This legislation includes key legislative changes that would make the District safer for residents and victims of crime while providing improved rehabilitation services for our youth. Through these initiatives the District will make great strides to provide a safe and secure city for those who live, visit, and work here.

OPPORTUNITY FOR ALL

The city is also devoting its efforts to improving services for the District's most vulnerable. At the Youth Services Administration, I have put in place transitional leadership that has already delivered improvements in the areas of security, treatment, staffing, administration, and licensing. We have also developed a comprehensive plan to best serve our youth and comply with and ultimately exit the current outstanding class action litigation. The plan also lays the groundwork for replacing the current Oak Hill facility with a smaller, state-of-the-art youth facility. In addition, this budget includes the following enhancements:

- expanded coverage for traditional Medicaid clients,
- full funding for the Health Care Alliance,

- expanded treatment for the elderly, mentally challenged, and HIV/AIDS patients, and
- facility upgrades at community clinics and “Medical Homes”.

PRIORITY FEDERAL FUNDING FOR CRITICAL PROJECTS

Our budget includes several requests for funding projects in partnership with the Federal Government and I welcome this Committee’s partnership with the District to invest available Federal resources in the city’s top priorities.

The President’s budget includes funding for several of my top priorities, including education funding for public schools, charter schools and private school scholarships; funding for the Combined Sewer Overflow project, which is part of a long-term effort to clean up and revitalize the Anacostia River; and funding for important public safety investments such as the Unified Communications Center and the Fire Department’s command center. Our budget also includes funding requests for several projects at a higher level than the President’s mark and for other projects that are not included in the President’s budget but are worthy of congressional attention. I would like to emphasize several of them here today:

—*Tuition Assistance Grant Program*.—This program will allow 4,000 students to pursue higher education this year—either at public institutions and private historically black colleges around the country as well as local private colleges and universities. This high participation rate, along with rising tuition costs, means that the District will need to restrict payments to students or make the program needs based for students applying to the program for the 2004/2005 school year unless Congress takes action to fund the program at a higher level. This would have a devastating impact on the program which has had such a profound impact on opening up college opportunities to many families for the first time, as well as providing an incentive for middle class families to remain in or relocate to the city. Our budget contains a request to fully fund this program at a level of \$25.6 million above the President’s mark of \$17 million. Otherwise we will have to curtail this very successful program.

—*Bioterrorism and Forensics Laboratory*.—Every city in the Nation has access to such a facility as provided by the State, and major cities have their own. These laboratories are critical to tracing evidence that leads to convicting and incarcerating offenders in cases involving homicide, rape, and other serious offenses. Although the District is given some access to the laboratory managed by the FBI, the available capacity is woefully inadequate, and therefore the District faces a large crime rate without the tools needed to address it.

This laboratory is also essential for assessing, detecting, and addressing bioterrorism attacks. As we have seen with the events of September 11, the anthrax attack, and the ricin scare, the Federal Government is a natural target for terrorists and the public safety infrastructure of the District of Columbia is the first line of defense. This laboratory would significantly enhance our ability to detect and respond effectively to such threats. Toward this end, we are requesting the \$9 million for the planning and design phase of a bioterrorism and forensics lab.

—*WMATA Operating Payments*.—The District’s contribution to WMATA operations will consume \$208.5 of the city’s local budget in fiscal year 2005. Because the District is the core of the Washington metropolitan area and the center of Federal operations, this investment not only benefits District residents, but it benefits the entire region. Last year, for the first time, Congress contributed \$3 million towards this subsidy. This year, we are asking for full funding for our WMATA subsidy. This support is justified because Federal stations, Federal workers, and visitors to the Federal Government constitute a significant amount of the WMATA activity subsidized by the District. Federal support is also justified because mass transit costs are typically funded at the State level; Maryland funds 100 percent of its localities’ operating subsidy and Virginia funds half for its jurisdictions. I would argue that inherently unfair allocation of operating expenses allocated among Maryland, Virginia, and the District is a striking example of the structural imbalance and a logical opportunity for the Federal Government to craft an immediate, partial solution.

—*Downtown Circulator*.—The Downtown Circulator project will provide the 22 million visitors to Washington, DC with an inexpensive and easy way to move around the Monumental Core. The service will connect several of the District’s most popular destinations for residents, tourists and even Federal employees. In the future, the system could also be adopted by Federal agencies as cost-saving replacement for private vehicle fleets and shuttle services. The Federal Government provided half a million dollars for this project in fiscal year 2004 and

the District is requesting an additional \$1 million in fiscal year 2005, which the District will match with local funds on a one-to-one basis on top of considerable support from the city's tourism and business sectors.

—*Public Safety Event Fund.*—This fund was established to fund local costs incurred in response to major Federal events, but this year it was seriously under-funded by the President and should be raised to \$25 million in fiscal year 2005. The proposed level of \$15 million would barely cover reimbursement for the District's costs associated with relatively predictable events such as anti-war protests, IMF and World Bank events, and high alert details. It does not account for any cost associated with the Presidential inauguration, including payment for officers from outside jurisdictions, the overtime costs of our own police officers, and the additional services from other agencies such as the Fire Department, WMATA, and WASA. In the post-9/11 security environments, total costs will cost well over the extra \$10 million that we are requesting.

—*Public School Security.*—In the wake of the tragic shooting at Ballou Senior High School on February 2, 2004, we need to redouble our efforts in this area. The approach of city leadership recognizes the critical importance of school principals and school staff in creating a climate of safety and the importance of providing our staff the necessary tools and training. There is currently legislation before Council to transfer the responsibility for school security to the Metropolitan Police Department. While the District is planning on funding the significant operating costs of this initiative, I am requesting Federal funding of \$15 million to assist with the one-time start up costs.

—*Adult/Family Literacy Initiative.*—This initiative, which was launched by this subcommittee, continues to address a gaping hole in the city's educational infrastructure. The District has leveraged over \$1 million in private assistance with Federal appropriations to date and we have used this funding to fund literacy services to 872 adults who otherwise would not have received assistance. We have also recruited, hired, placed and provided professional development for 20 Lifelong Learning Coaches. I am requesting an additional \$2 million to continue our efforts and focus additional efforts on the areas where we have identified significant disparities between the need for literacy services and the availability of those services.

DEMOCRACY FOR THE NATION'S CAPITAL

Having presented the District's fiscal year 2005 budget and Federal request, I would like to close with a discussion of something that is beyond price, and that is the democratic rights of our citizens. The Senate has already signaled its interest in expanding Home Rule and democracy in the District by passing budget autonomy. I would like to ask for your individual support to take the next crucial steps. The District is the capital of the world's greatest democracy, and it is the ultimate hypocrisy that its citizens suffer from the exact disenfranchisement this Nation was founded to end. The United States is continuing to sacrifice hundreds of lives and billions of dollars to provide Iraqis with freedom and democracy, yet denies full democracy to more than a half a million people at its very heart. I urge you to end this injustice and provide the city with full voting representation in the Congress. Anything short of full democracy for our residents should be at the level of personal outrage for all Americans. This concludes my remarks today. Thank you for the opportunity to testify before you today and I look forward to answering any questions you may have.

Senator DEWINE. Thank you, Mayor.

Chairman Cropp, thank you very much for joining us.

STATEMENT OF LINDA W. CROPP

Ms. CROPP. Thank you very much, Mr. Chairman, Senator Landrieu, Senator Hutchison. It is indeed a pleasure to be here with the Mayor and Dr. Gandhi to testify before you with regard to the District of Columbia's budget. I join with the Mayor in thanking you so very much for the support that you have given to the District in the past, in particular your passage of the budget autonomy for the District of Columbia.

The fiscal year 2005 budget, as many of you recognize, represents the eighth year in a row consecutively that a fiscally-sound and

balanced budget is presented to you. This budget is also a reflection of our resolve to stand as one government that will remain fiscally prudent and responsible.

The efforts of the Council and the Mayor working together have created a spending plan that continues to provide the services needed to make the District of Columbia a much better place to live, to work, to raise a family and to visit. The Council and the Mayor will continue to work in a collaborative effort throughout the year in order to manage government spending.

Fiscal discipline has always been and will continue to be a top priority of the last few Councils for our legislative agenda. We have not only demanded it of the executive branch, but we also practice it. The various forms of fiscal discipline, from rainy-day funds, financial safeguards, insurance and investment policies, economic triggers, to pay-as-you-go funds, that we have demanded and imposed on ourselves in the past several years have yielded significant returns for the District.

During the Council's 50-day review period of the budget, we held 54 hearings, totaling 296 hours of public hearings. These public hearings are a very important part of our budget process. The public hearings provide our citizens an opportunity, with our workforce, to comment and to critique the programmatic funding needs and agency performance that impacts them. This feedback is essential.

The Council worked diligently with the Mayor in aligning both sets of priorities and put together a fiscally-sound and responsible spending plan. The operating budget funds basic city services and programs. The capital budget, as a result of stringent oversight, has been aligned. For example, funds were redirected and targeted for those projects with higher priority and critical need.

On May 14, the Council approved a \$4.16 billion spending plan that provides adequate funding for basic city services and programs. The funding level for fiscal year 2005 represents a 7.1 percent growth over the revised 2004 local budget and sets growth for next year's budget at 4.6. The Council is determined to keep our budget growth within realistic figures.

The budget provides \$40 million for the production of low- and moderate-income housing, and increases the funding for child care, substance and drug abuse treatment, and health care for uninsured residents. In keeping with the seven goals of the Council's legislative agenda, schools continue to receive full funding. The budget earmarks approximately \$1 billion for public and charter schools.

In order to address concerns about the growth of spending in certain agencies, while still wanting to finance programs important to the District's most vulnerable residents, a contingency fund was established. This fund would provide financial support for the District's budget if other sources were not available for the Department of Human Services' Child and Family Services, Mental Health, Inspector General, Employment Services, Youth Services, and the Office of the Secretary. A request to expend money from the contingency fund would require proof of need and the appropriate efficiencies that we expect from government.

The Council supports the congressional budget request items, particularly the Tuition Assistance Grant program and the plan-

ning and security costs associated with the Federal presence. A total of 4,086 students are receiving funds this year from the TAG program. It has had a significant impact on furthering the education of these students. Therefore, it is important that the additional \$8.6 million be provided to continue to fund this program.

The need for funding, planning and security costs related to the Federal presence continues to rise. The requirements of homeland security have added to this cost. In the past 2 years, the District has been reimbursed for the costs it has incurred for major events held in Washington, due to the fact that we are the Capital City. These cost have now been capped at \$15 million.

In the past 2 years, which have been non-inaugural years, the District has received \$15 million to cover the costs for providing safety at events. The District is now being asked to apply the \$15 million to cover the costs for the major events and the Presidential inaugural. Historically, the District has been directly reimbursed for the costs associated with the Presidential inauguration.

The costs for providing security during the 2001 inauguration were \$6 million. With the addition of homeland security requirements, this amount has grown to \$10 million. The District, however, is now asking for the additional \$10 million. We just cannot possibly absorb that within all of the other costs.

Another area I would like for you to consider is funding to assist with the cost of correcting the problem of the lead in the water. As you are aware, investigations to date have revealed that the various actions of the D.C. Water and Sewer Authority, the Environmental Protection Agency and the Washington Aqueduct may have all contributed to the problem.

Therefore, it would appear to be appropriate for Federal dollars to be made available to assist in the cost for the testing of the water, the testing of the lead levels in residents, and for the replacement of the lead service line. It is our hope that through the joint effort of the District and Federal governments, we can resolve this problem and again make water safe in the District of Columbia.

I would also like to ask for your help in obtaining the approval of the District's tax incentives that expired at the end of last year. The first-time homebuyer credit, the enterprise zone credit and the revenue bond programs are important to economic development in the District. The first-time homebuyer credit attracts residents to the District and assists persons in purchasing homes that might not otherwise have the opportunity to do so. As you are probably aware, the Mayor has a proposal that would bring in more residents to the District of Columbia, and those tax credits certainly played a major role in helping to grow our economy.

The District is always challenged in developing its budget due to ongoing structural imbalances. I want to join with the Mayor in thanking you so very much for supporting and passing budget autonomy. It is very important to the citizens of the District of Columbia and we thank you for your wisdom and your action in that.

On the structural imbalance, we hope that we would be able to rely on some of the reporting from the General Accounting Office and the committee and that they will look at that and give the District some assistance in that.

I would like to mention one other way the Congress could assist the District of Columbia in its managing of funds, and Senator Hutchison has elaborated on that in her opening statement with regard to our cash reserve. We thank you for the changes that are being made. We think that that is the right direction for us to go.

We believe that we ought to have some cash in the bank. We join with you in that, but the changes that were there were possibly just a little bit too much and we are happy we are moving in this direction. I would ask that you consider in the future as we continue along the line of fiscal responsibility that you look at a 3-year pay for paying it back if we need the emergency money within 1 year.

In most instances, a 1-year pay-back is still too soon. When you look at what most other jurisdictions do, they usually have a 3-year time period to pay it back. So as we continue along fiscal responsibility, we hope that you will look at that.

PREPARED STATEMENT

In conclusion, I would like to say that we look forward to working with you as we make the District of Columbia the type of city that we all know that it can be. We are on our way, we are moving in that direction, but we will continue to strive to make it a much better place for people to work, live and visit.

Thank you very much.

[The statement follows:]

PREPARED STATEMENT OF LINDA W. CROPP

Good morning, Chairman DeWine, Senator Landrieu and members of the Senate Appropriations Subcommittee on the District of Columbia. I am pleased to be here with my colleagues to testify on the District's budget for fiscal year 2005.

INTRODUCTION

The fiscal year 2005 budget represents for the eighth year in a row, a fiscally sound and balanced budget. This budget is also a reflection of our resolve to stand as one good government that will remain fiscally prudent and responsible. The efforts of the Council and the Mayor, working together, has created a spending plan that continues to provide the services needed to make the District a better place in which to live, to work, to raise a family, and to visit. The Council and the Mayor will continue this collaborative effort throughout the year in order to manage government spending.

Fiscal discipline has always been and will always be a top priority on our legislative agenda. We not only demand it of the executive branch, we practice it. The various forms of fiscal discipline—from rainy day savings, financial safeguards, insurance and investment policies, economic triggers to Pay-As-You-Go funds—that we have demanded of, and imposed on ourselves in the past several years, have yielded significant returns to the District of Columbia. This is reflected in the District Government receiving for the seventh consecutive year an unqualified audit opinion and a fiscal year 2003 Comprehensive Annual Financial Report (CAFR) showing a balanced budget. In addition, this year for the first time, the District received an “A” rating from all of the Wall Street financial rating agencies.

In 2004 the Council passed the fiscal year 2005 Budget Submission Requirements Resolution of 2004. It established the date for submission of the Mayor's proposed budget. It required performance plans and reports, and certain information and documentation be submitted to the Council along with the proposed budget.

THE BUDGET PROCESS

During the Council's 50-day review period the Council conducted 54 hearings totaling 296 man-hours. These public hearings are an important part of the budget process. The public hearings provide the citizens and our workforce with an opportunity to comment and critique programmatic and funding needs, and agency per-

formances that impact them. This feedback is essential in reaching the decisions and determining the recommendations of each committee in the mark-up of the budgets.

The Council worked diligently with the Mayor in aligning both sets of priorities and, put together a fiscally sound and responsible spending plan. The operating budget funds basic city services and programs. The capital budget, as a result of stringent oversight by the Council, was realigned. For example, funds were redirected and targeted for projects with higher priority and critical needs, such as schools for the children, housing for low and moderate income residents, and enhancing existing facilities for better public/Council interaction.

The Mayor submitted the budget to the Council on March 29. The proposed local budget was \$4.17 billion, an increase of \$282.8 million or 7.3 percent above the revised fiscal year 2004 budget. The Council carefully reviewed the proposed expenditures to ensure that priority programs were properly funded. Adjustments were made through hard decisions between competing program preferences and by rooting out unnecessary budget cushions within the request.

HIGHLIGHTS OF THE FISCAL YEAR 2005 BUDGET

On May 14 the Council approved the \$4.16 billion spending plan that provides adequate funding for basic city services and programs. This funding level for fiscal year 2005 represents a growth of 7.1 percent over the revised fiscal year 2004 local budget and sets growth for next year's budget at 4.6 percent. The budget provides \$40 million for the production of low and moderate income housing and increases the funding for childcare, substance and drug abuse treatment, and health care for uninsured residents. In keeping with the seven goals on the Council's legislative agenda, schools continue to receive full funding. The budget earmarks approximately a billion dollars for public schools and public chartered schools.

In order to address the Council's concerns about the growth of spending in certain agencies while still wanting to finance programs important to the District's most vulnerable residents, a contingency fund was established. This fund would provide financial support from the District's budget if other sources were not available for the Departments of Human Services, Child & Family Services, Mental Health, Health, Inspector General, Employment Services, Youth Services Administration and the Office of the Secretary. Requests to expend money from the contingency fund would require proof of need and approval by the CFO, the Mayor and the Council.

FEDERAL BUDGET REQUEST

The Council supports the Congressional budget request items included in the Mayor's proposal. However, I would like to highlight two items included in that request. The Tuition Assistance Grant Program (TAG) and the Planning and Security costs associated with the Federal presence. The TAG program has been extremely successful in the District. A total of 4,086 students are receiving funds this year from the program. TAG has had a significant impact on furthering the education of these students. Therefore, it is important that the additional \$8.6 million be provided to continue to fully fund this program.

The need for funding Planning and Security costs related to the Federal presence continues to rise. The requirements of Homeland Security have added to this cost. In the past 2 years the District has been reimbursed for the costs it has incurred for major events that are held in Washington. These costs have now been capped at \$15 million. In the last 2 years, which have been non-inaugural years, the District has received the \$15 million to cover its costs for providing safety at events. The District is now being asked to apply the \$15 million to cover the costs for major events and the Presidential Inauguration. Historically the District has been directly reimbursed for the costs associated with the Presidential Inauguration. The costs for providing security during the 2001 inauguration were \$6 million. With the addition of Homeland Security requirements this amount has grown to \$10 million. The District Government is asking for the additional \$10 million to cover the anticipated costs that will be incurred for the 2005 inauguration.

Another area I would like for you to consider is funding to assist with the costs of correcting the problem of lead in the water. As you are aware the investigations to date have revealed that the various actions of the DC Water And Sewer Authority (WASA), the Environmental Protection Agency (EPA) and the Washington Aqueduct may have all contributed to the problem. Therefore, it would appear to be appropriate for Federal dollars to be made available to assist in the cost for the testing of water, the testing of lead levels in residents and for the replacement of lead service lines. It is our hope that through the joint effort of the District and Federal Gov-

ernments we can resolve this problem and again make water safe in the District of Columbia.

I would also like to ask for your help in obtaining approval of the District's tax incentives that expired at the end of last year. The First Time Homebuyer credit, the Enterprise Zone credit and the revenue bond program are important to economic development in the District. The First Time Homebuyer credit attracts residents to the District and assists persons in purchasing homes that might not otherwise have an opportunity to do so. The Enterprise Zone credit and the revenue bond program are real incentives for attracting businesses to operate within the District.

The District has not been able to offer these very important benefits for the past 5 months. It is important to our economic growth that these tax incentives be reauthorized.

FEDERAL CONTRIBUTION

Historically, the relationship between the District and the Federal Government has been a unique political and financial arrangement. Between 1879 and 1920, the Federal Government would provide assistance by paying half of all District expenditures. Subsequently, given the various Federal prohibitions on taxing nonresident incomes, Federal properties, Federal purchase of goods and services, the District would receive a direct payment. This payment was stopped in 1997 when the Federal Government assumed responsibility for the cost of the contributions to the police, firefighters, and teachers retirement plans, various Court services and portions of other State functions.

It is worth recalling that when the 1997 Revitalization Act was passed, one recommendation was that Congress would not need to review or approve the District's budget because the city would no longer receive any Federal payments. At a minimum, Congress should no longer approve the local portion of the District's budget. Just like the other 50 States, the District should be solely responsible for approving its own local spending. Achieving such budget autonomy will allow the District to implement its budget in a timely manner and will assist in improving the city's fiscal management. I want to thank you Mr. Chairman, the subcommittee and the Senate for supporting this initiative. It is my hope that the U.S. House of Representatives will soon join you in adopting this proposal.

The District Government is always challenged in developing its budget due to the ongoing structural imbalance that exists between its spending needs and its revenue generation capacity. As noted in the General Accounting Office's May 2003 report the imbalance amounts to between \$400 million to \$1.143 billion per year. The report also noted that the cost of providing public services is much higher in the District than it is in the average State due to a relatively large poverty population, poor health indicators, high crime, and the high cost of living. The report stated that the District has a very high revenue capacity, and the city is already taxing toward the upper limit of our revenue capacity, thereby creating a punitive tax structure.

Congresswoman Eleanor Holmes Norton has introduced Bill H.R. 4269, the District of Columbia Fair Federal Compensation Act of 2004. The bill outlines the unique situation of the District of Columbia as a Federal city. It proposes an annual Federal payment of \$800 million with provisions to adjust the number in the future. The \$800 million would be made available to address important structural needs of the city, which the District Government cannot fully fund from its current budget. Transportation and street maintenance, information technology and DCPS capital improvements are essential to the running of the city. I ask for this subcommittee to support this legislation and encourage adoption by the Senate.

I would like to mention one other way that the Congress could assist the District Government in managing its funds. Dr. Gandhi has proposed changes to the requirements for the Emergency and Contingency Cash Reserve funds. The proposed changes would provide additional monies for local programming and the provision of services to the residents of the District of Columbia while still maintaining required reserve levels. Your support of the proposed changes would be of great benefit to developing and managing our budget.

CONCLUSION

Finally, as you consider our appropriations request, we ask that you support and pass the budget in time for the start of the new fiscal year and before the adjournment of the 108th Congress. Furthermore, we urge you to pass the budget as is, without any extraneous riders. This much anticipated fiscal year 2005 budget is important because it shows how the Mayor and the Council can work together and underscores our commitment to make Washington, DC one of the best governed cities in the Nation.

Nonetheless, the Council will continue to oversee the Executive's operations and expenditures. We will be responsive to our constituents who call the District their home. We will work with the Mayor, Congress, and the surrounding governments to achieve mutually shared goals. Together with the Mayor, we will produce good responsible budgets that invest dollars for the District and leave a legacy for future generations. Granted we do not always agree from time to time, but we will be at the table to assert ourselves as an institution and work for the betterment and future of our citizens.

I thank you for this opportunity to present the fiscal year 2005 budget and these issues of major importance to the District of Columbia.

Senator DEWINE. Thank you.
Dr. Gandhi.

STATEMENT OF NATWAR M. GANDHI

Dr. GANDHI. Thank you, Mr. Chairman, Senator Landrieu, Senator Hutchison. I am Natwar M. Gandhi, Chief Financial Officer for the District of Columbia and I am here today to testify on the District's fiscal year 2005 budget request to the Congress.

The Congress created the District's Office of the Chief Financial Officer to preserve and enhance the District's financial viability at all times. The District has made substantial progress in the last 7 years, achieving a consistent series of balanced budgets and clean audits, and significantly improving its financial infrastructure.

As part of this success, the District has had a \$1.4 billion turnaround in fund balance, from a negative of \$518 million in 1996 to a positive balance of about \$897 million at the end of fiscal year 2003. We had almost \$254 million in cash reserves for emergency and contingency purposes at the end of fiscal year 2003, probably the largest of such reserves as a percentage of budget in the entire Nation.

The crowning event to date, in fiscal year 2004, is the recent two-notch upgrade in the rating on our general obligation bonds from Moody's, lifting our rating to the A category from all rating agencies for the first time ever. And I particularly want to thank this committee, and particularly Senator Hutchison, for taking a lead on that.

We continue to build on this record of accomplishment. Standardized spending plans for all agencies are now in place, and we are monitoring reserves against those plans using a new online financial management tool for controlling agency spending.

The District has enacted its own Anti-Deficiency Act to hold financial and program managers accountable for achieving program results within approved budgets. The first-ever local anti-deficiency report identifying agencies that have strayed from the approved budgets and spending plans in the first quarter of fiscal year 2004 is forthcoming.

With all these accomplishments in place as evidence of ongoing fiscal prudence and commitment to sound fiscal management, it is high time to grant the District local budget autonomy. It will allow the District to improve budget preparation and management quite significantly.

Mr. Chairman, I very much appreciate your leadership and support on that matter, and we hope that the U.S. House of Representatives will soon follow your lead in this matter.

The fiscal year 2004 financial outlook is good, and I am confident that we will end the year with a balanced budget one more time. The fiscal year 2005 budget request has just been voted on by the Council on May 14. As Chairman Cropp pointed out, the Council and the Mayor are currently reconciling their respective budget amendments, and we will provide the subcommittee with the final numbers as soon as they are available. However, I would like to briefly summarize some of the key points in the request.

The local funds, taxes and fees paid by D.C. residents comprise about two-thirds of the total budget, or about \$4.16 billion, an increase of about \$332 million, or about 8.7 percent. Please note that the expenditure growth for the local funds in 2005 does not set the mold for 2006 and beyond. Expenditures are expected to grow at 4.5, 4.3 and 4.5 percent for fiscal years 2006, 2007, and 2008, respectively.

The 2005 budget includes important budget corrections or increases to recognize the true cost of providing the current level of services. The increases in this budget are driven by the cost of maintaining current programs at existing program levels, not by new program initiatives. All of the total increase of \$332 million in local fund expenditures is related to maintaining current services.

Two areas of note are Medicaid and public education. The rising Medicaid expenditures are in large part due to the cost of providing care to the District's aging and disabled population. In 2000, 20.3 percent of the District's population was disabled, and about 12 percent was over the age of 65. The cost of caring for these groups has increased at a rate much faster than inflation. The District has also experienced enrollment increases and has now reached 99-percent-eligible enrollment status.

When we benchmark our Medicaid programs with our neighboring States, here is what we find. Fully 25 percent of the District's population is enrolled in Medicaid, compared to 12 percent in Maryland and 9 percent in Virginia. The District spends on average \$7,200 per enrollee, compared to about \$5,500 in Maryland and about \$5,100 in Virginia. Per resident, the District of Columbia spends about \$1,776, compared to about \$649 in Maryland and \$445 in Virginia.

In public education, the formula increases in public education for both D.C. public schools and charter schools added about \$70 million over the 2004 budget. However, these increases are needed to maintain schools as they operate today.

The economic outlook for the District of Columbia for fiscal year 2005 is quite good. Retail sales, including tourism, are expected to be up by about 5 percent, reflecting the current trends. The real estate market continues to be very strong, with taxes on property sales remaining at all-time highs. Real property tax revenues are expected to increase by about 11 percent in 2005.

Our 5-year financial plan projects positive net operating margins through fiscal year 2008. However, the District will operate on a very slim financial margin, about \$2 million, in fiscal year 2005. As you are aware, in fiscal year 2002 the District fully funded its emergency and contingency cash reserve funds at the maximum current required level, totaling about \$248 million, or 7 percent of the total expenditure budget. This was a significant accomplish-

ment, achieved 5 years ahead of our deadline, and it has contributed significantly to the District's bond rating upgrades.

Senator DEWINE. Doctor, if you could wrap up, please.

Dr. GANDHI. All I need to add here is basically the changes that we are currently working with Senator Hutchison's office on, once they are implemented into law, we will be able to provide still a substantial amount of cash in there.

PREPARED STATEMENT

The last thing I would want to say is basically we appreciate your lead on the structural imbalance, and on that front the recent legislation that is sponsored by Ms. Eleanor Holmes Norton in the House would be the most welcome correction for the District's structural imbalance.

Mr. Chairman, that concludes my oral remarks. I request that my written testimony be made part of the record.

Senator DEWINE. It will be made a part of the record. Thank you very much.

Dr. GANDHI. Thank you, sir.

[The statement follows:]

PREPARED STATEMENT OF NATWAR M. GANDHI

Good morning, Mr. Chairman, Senator Landrieu, and members of the subcommittee. I am Natwar M. Gandhi, Chief Financial Officer for the District of Columbia, and I am here today to testify on the District's fiscal year 2005 budget request to the Congress. My remarks will briefly touch on the fiscal year 2004 financial outlook, the fiscal year 2005 request, and the overall health of the District's finances.

OVERARCHING FINANCIAL GOAL

Since assuming this office, my overwhelming objective has been to preserve, enhance, and secure the District's financial viability for today and into the indefinite future. The District has made substantial progress in the last 7 years, achieving a consistent series of balanced budgets and clean audits, and significantly improving our financial infrastructure. As part of this success, the District has had a \$1.4 billion turned around in fund balance from a negative \$518 million in 1996 to a positive balance of \$897 million at the end of fiscal year 2003. We have over \$253 million in cash reserves for emergency and contingency purposes, the largest such reserves as compared to budget that I can identify in the entire Nation. The culminating event to-date in fiscal year 2004 is the recent upgrade in the rating on our General Obligation bonds from Moody's Financial Services, lifting our rating to the "A" category from all rating agencies for the first time ever.

We continue to build on this record of accomplishment. Standardized spending plans for all agencies are now in place and we are monitoring results against those plans using a new on-line financial management tool for controlling agency budgets. Across all agencies, we are building performance budgets that set targets for accomplishments and benchmark these targets against best practices in local government. The District has enacted its own Anti-Deficiency Act to hold financial and program managers accountable for achieving program results within approved budgets. We have recently issued the first ever local Anti-Deficiency report identifying agencies that have strayed from their approved budgets and spending plans in the first quarter of fiscal year 2004.

The District is making steady progress on its long-term replacement strategy for its administrative systems—the Administrative Services Modernization Program (ASMP)—spearheaded by the Office of the Chief Technology Officer. Over the next 3 years, all of the District's administrative systems—personnel, payroll, procurement, property management, and budget—will be upgraded and integrated with the System of Accounting and Reporting (SOAR). For the first time, the District will have a top quality, integrated information system with which to manage District operations. Already in operation is a new procurement system linked to our accounting

system. A new budget system is scheduled to become operational in August 2004, a personnel system in November 2004 and a payroll system in July 2005.

With all of these accomplishments in place, as evidence of ongoing fiscal prudence and commitment to fiscal viability, it is time for two changes in the District's relationship with the Federal Government. Specifically, budget autonomy will allow the District to improve budget preparation and management quite significantly. Without autonomy we must prepare specific expenditure plans and revenue estimates many months in advance of the actual budget year, adding more-than-usual uncertainty about the planned budget and posing more difficulty in budget execution. Mr. Chairman, I very much appreciate your support and that of the U.S. Senate on the matter of budget autonomy and am very hopeful that the U.S. House of Representatives will soon follow your lead in this matter.

It also is time for some additional Federal consideration of the District's infrastructure needs. The District faces about \$3 billion in infrastructure needs in the next 4 years—mostly in schools, streets and transportation—that cannot possibly be funded locally. The District of Columbia already has the highest per capita general obligation debt in the Nation and a tax burden that is 18 to 33 percent higher than average for the States. Our only local options for meeting these infrastructure deficiencies are: (1) adding even more per capita debt—an action very much frowned on by the rating agencies, (2) increasing per capita tax burdens—an action likely to discourage current and potential residents and employers, or (3) lower delivery of other types of services—a difficult choice in a city with an unusually large population of people in need.

In May 2003, the General Accounting Office (GAO) strongly underscored the District's unique financial challenges in generating the funds to finance all usual and necessary services. An annual structural imbalance is identified in report GAO-03-666, of \$470 million to \$1.14 billion between the costs of delivering typical services and the revenue available from typical tax burdens, based on the fiscal year 2000 budget and data. Over the years, the District dealt with this gap by neglecting infrastructure needs and assessing very high taxes. Today, we continue to need assistance to address our many infrastructure problems.

FISCAL YEAR 2004 FINANCIAL OUTLOOK

Through the leadership and cooperation of our elected officials, the District made the necessary tough decisions to assure a balanced budget for fiscal year 2004. As of this time, all identified spending pressures have been resolved through internal or interprogram reallocations. I am confident we will end the year with a balanced budget.

FISCAL YEAR 2005 BUDGET REQUEST

The Council of the District of Columbia voted to approve the fiscal year 2005 budget request on May 14. I would like to briefly summarize some of the key points in the request.

In total, the District's gross funds operating request for fiscal year 2005 is \$6.25 billion, an increase of about \$545 million, or 9.6 percent, over the approved fiscal year 2004 level of \$5.7 billion. The total number of positions in fiscal year 2005 from all funding sources is 33,050, an increase of 882 positions.

Local funds, taxes and fees paid by D.C. residents comprise about two-thirds of the total budget, about \$4.17 billion, an increase of about \$332 million, or 8.7 percent, over fiscal year 2004 levels. The total number of positions funded with local funds is 26,050 in fiscal year 2005, a decrease of 195 positions.

Please note that the expenditure growth for local funds in fiscal year 2005 does not set the mold for fiscal year 2006 and beyond. Expenditures are expected to grow at 4.1, 4.6 and 4.3 percent for fiscal years 2006, 2007, and 2008, respectively. The fiscal year 2005 budget includes important budget corrections or increases to recognize the true cost of providing the current level of services, including entitlements experiencing both higher provider rates and utilization, court orders' compliance costs, attainable projections of Medicaid reimbursements, higher pension costs for prior years' pay raises for teachers, police officers and firefighters, as well as new operating costs from completed capital projects. Almost half of the fiscal year 2005 local funds growth rate of 8.7 percent, or \$156 million of the \$332 million increase, is due to these one-time budget corrections for fiscal year 2004 service level and rate increases. The remainder of the growth—4.6 percent (growth rate of 8.7 percent minus 4.1 percent) or \$176 million—is anticipated service level and cost increases for fiscal year 2005 alone. If we isolated service level and rate increases for just fiscal year 2005, it would be 4.6 percent rather than a 8.7 percent growth, which is in-line with the previously mentioned out-years growth rates.

COST DRIVERS

The increases in this budget are driven by the cost of maintaining current programs at existing program levels, not by new program initiatives. All of the total increase of \$332 million in local fund expenditures is related to maintaining current services. Program initiatives of \$36.3 million are accommodated by making program reductions or shifting costs to other fund sources.

Medicaid.—The fiscal year 2005 proposed budget for Medicaid is \$1.4 billion, or 22 percent of the District's gross funds budget. Total program costs have risen 45.2 percent and local fund costs by 30.9 percent between fiscal year 1999 and fiscal year 2004. In fiscal year 2005, Medicaid costs are projected to increase by \$39 million.

There are several contributing factors to rising Medicaid expenditures, but they are in large part due to the cost of providing care to the aging and disabled populations. Care for these groups has increased at a rate much faster than inflation because of price increases in prescription medications, the rapidly rising costs for nursing home services, and labor costs that continue to soar, driven by a nationwide shortage of nurses and new staffing requirements. The District has also experienced enrollment increases and has now reached 99 percent eligible enrollment status. This is attributable mainly to aggressive outreach campaigns and program expansions such as the Childless Adults Waiver that offers coverage for ages 50–64 up to 50 percent FPL and the expansion of the HIV/AIDS Waiver.

When we benchmarked our Medicaid program with our neighboring States, here is what we found:

- 25 percent of the District's population is enrolled in Medicaid—compared to 12 percent in Maryland and 9 percent in Virginia.

- The District spends, on average, \$7,242 per enrollee—compared to \$5,509 in Maryland and \$5,177 in Virginia.

Per resident, D.C. spends \$1,776—compared to \$649 in Maryland and \$445 in Virginia.

Costs per enrollee are higher in the District than in surrounding jurisdictions because the District, an entirely urban area, has higher costs to deliver the same services as Maryland and Virginia. These States spread part of their service delivery over rural areas that have lower costs. With higher costs per enrollee and a high proportion of its population in need, D.C. taxpayers carry a large burden for their fellow residents.

Public Education.—Formula increases in public education for both D.C. Public Schools and Charter Schools add \$75 million to this appropriation. However, these increases are needed to maintain schools as they operate today.

Pay Costs.—The increased cost of maintaining the District's workforce, essentially unchanged in size from fiscal year 2004, is \$89 million—an increase of six percent over fiscal year 2004. These increased costs are driven predominantly by previously negotiated labor/management agreements.

Operating Impact of Capital Projects.—As a matter of good budgeting, the District has decided to recognize explicitly in its operating budgets the on-going maintenance costs of completed capital projects. This approach assures that the on-going operational costs of such projects do not show up as subsequent spending pressures or inadequately maintained systems. In the past 5 years, the District has had an aggressive program of capital improvements in the information technology arena and must now budget for resultant maintenance costs. In fiscal year 2005, such costs add \$28 million to our baseline needs.

Debt Service and Other Fixed Costs Increases.—An increase of \$68 million is required to service the District's debt and meet fixed cost increases (rent, telecommunications, etc.).

The chart at the end of my testimony breaks out these cost increases by type.

THE FISCAL FORECAST

The economic outlook for the District in fiscal year 2005 is quite good, with a forecast growth in the baseline tax revenue of 5.4 percent. Retail sales, including tourist accommodations and restaurants, as well as general retail, are expected to be up by 5 percent—reflecting current trends—as will individual and corporate income taxes. The real estate market continues very strong, with taxes on property sales remaining at all time highs and real property tax revenue expected to increase 11 percent in fiscal year 2005. Special purpose revenue funds will grow by 8.7 percent.

The fiscal year 2005-fiscal year 2008 financial plan projects positive net operating margins through fiscal year 2008. However, the District will operate on a very slim financial margin—about \$1 million in fiscal year 2005—based on expenditure plans and forecasts of revenue growth. The 8.7 percent expenditure growth in the fiscal year 2005 budget is financed through the use of growth in current year revenues

and fund balance amounts accumulated from prior years. Once used, a fund balance is gone and on-going expenditure requirements must ultimately be met with on-going revenue streams. Our financial plan shows that the District of Columbia meets this requirement in the planning period.

Because of these tight projected margins, any adverse disturbance in the District's expected financial fortune could necessitate immediate major cutbacks in programs and services. Our very large emergency and contingency reserves are of limited help, for two reasons. First, the conditions for use are very restrictive and, second, any funds used must be paid back in the next fiscal year. Realistically, and especially in very difficult circumstances when resources are desperately needed, the District cannot take advantage of these funds. It will be challenging for our revenue stream to sustain the current level of service, and there is no room for consideration of additional program initiatives or significant infrastructure investments. For these reasons, the city and its elected leadership will face progressively more difficult program and financial decisions in the years to come.

CAPITAL BUDGET CONSTRAINTS

One area where the imbalance between revenues and needed expenditures is already apparent is in the capital budget. The Capital program is increasingly constrained by limited operating revenues to support debt service as well as by the impact of prudent debt ratios and debt service affordability determinations. To maintain good standing with Wall Street, we must cap annual capital borrowing at \$400 million in fiscal year 2005, \$350 million in fiscal year 2006 and \$300 million in fiscal year 2007 and fiscal year 2008. With estimated needs of \$775 million, the District's Capital Improvement Plan for fiscal year 2005 has an expenditure gap of approximately \$375 million.

Structural Imbalance in the District's Budget.—In the last 7 years, the District has submitted balanced and responsible budgets during periods of increasing, as well as declining, revenues. Our restrained budgeting in the good years helped us work through some of the hard times. Despite this record of balanced budgets, the District has a serious long-term financial problem—a structural imbalance that transcends short-term challenges and cyclical revenue fluctuations. This structural imbalance is a long-term gap between the District's ability to raise revenue at reasonable tax rates and the District's ability to provide services of reasonable quality and quantity to its residents. The causes and consequences of this imbalance were well documented by the General Accounting Office.

The GAO defines a financial structural imbalance as an inability to provide a representative array of public services by taxing at representative rates. Using this definition, many municipalities could legitimately claim to have a structural imbalance. However, the District is unique among all municipal governments. It is the only city chartered in the Constitution of the United States and under the legislative jurisdiction of the Congress—that is, the District is the only Federal City of the United States of America. It is the only city that has no State to share costs or underwrite expenditures in whole or part; instead, the District of Columbia bears about \$500 million annually in costs of Mental Health, Human Services, Child and Family Services, a University, Motor Vehicles, Taxation, Insurance Regulation, Public Service Commission, and other State services. The District is a city whose primary employer is self-determined to be exempt from tax on its property and exempt from tax on its income. Further, by Federal law, the preponderance of workers in the District of Columbia are exempt from the District of Columbia income tax. Lastly, it is the only municipality in the country that must exercise the responsibilities of a city, county, State, and school district. Although the District has the taxing authority for all types of taxes typical of States and local governments combined, it does not have the corresponding tax base sufficient to pay for the services it must provide.

As a consequence of these factors, the GAO finds the District's structural imbalance for fiscal year 2000 to be 14.4 percent to 40.3 percent of local revenue, depending on how it is measured. Note that this is after the benefits of the 1997 Revitalization Act that relieved the District of some State-like services and ended the annual Federal payment. According to GAO, the District either is among the group of States with the very highest shortfalls (at the very lowest end of the range) or the District has more than twice the shortfall of the highest State (at the highest end of the range). The lower-end represents a set of services typical of a State and the higher-end adds emphasis for dense urban areas. The District obviously falls somewhere above the bottom and, arguably, close to the top. Because of our urban population and service requirements, the District of Columbia's problem clearly is severe and exceeds that of any State.

The GAO report also finds that the District of Columbia continues to defer significant amounts of infrastructure development because of constraints in its operating budget. When compared to combined State and local debt across the 50 States, GAO found that the District's debt ranks as the highest in the Nation both per capita and as a percentage of own-source revenue.

THE BASIS FOR FEDERAL ACTION TO ADDRESS THE IMBALANCE

Because of the District's unique status, the Federal Government—both the legislative and executive branches—has recognized its responsibility to assist the District in meeting its municipal financing needs. For many years, federally appointed commissioners administered the delivery of municipal services under the aegis of the Federal Government. With the establishment of limited home rule in 1973, chartering Federal legislation provided for a Federal payment. The basis for such payment was laid out in Section 11601 of the Act, which recognized the special limitations and burdens placed on the District by the Federal Government. These restrictions included limitations on the District's taxing authority, the costs of providing municipal services to Federal installations in the District, and the special costs imposed on the District because of its status as the capital of the Nation.

The District of Columbia Revitalization Act of 1997 restructured responsibilities in a way that resulted in the assumption by the Federal Government of prisons, courts and certain D.C. employee pension liabilities. In the absence of a parent State for the District, under the Revitalization Act, the Federal Government assumed certain responsibilities that in other localities would be undertaken by the State. At the same time, this Act phased out the annual Federal payment to the District but contained language permitting this issue to be revisited at an appropriate time.

In addition to the courts and prisons, each year the Federal Government provides financial assistance to the District for a variety of targeted projects. Apart from pass-throughs to non-governmental entities and formula-driven Federal entitlement payments, this amount has ranged from a high of \$167 million in fiscal year 1998 to a low of \$24 million in fiscal year 2000 and was \$127 million in fiscal year 2003. Notwithstanding the provisions of the Revitalization Act, and the continued financial support from the Federal Government for earmarked projects, the District still faces an on-going structural imbalance.

When it comes to addressing the structural imbalance, we see few additional options other than continuing to shortcut services. Already the District has extremely high tax burdens; recall that by GAO account this burden ranges from 18 percent to 33 percent above the average for States, depending on the measurement used. Increasing the tax burden on District businesses and residents even further simply influences potential and current residents or businesses to locate in adjacent lower-tax or higher-service States. Given the structural imbalance, the District must continue to choose between tax levels that are even higher than the national average, service levels that are lower than the national average, or combinations of both.

It is my hope that the GAO report helps Congress and the District move beyond questions of whether there is a structural imbalance to questions of how the Federal Government and District government can work together to address this problem. And this problem must be addressed with urgency to assure the long-term financial viability of the Nation's capital city.

Congresswoman Eleanor Holmes Norton authored Bill H.R. 4269, the District of Columbia Fair Federal Compensation Act of 2004, that recognizes the District's unique needs and provides unique solutions. That Bill establishes a Dedicated Infrastructure Account within the general fund of the District. The fund would receive \$800 million annually in Federal monies, with growth adjustments over time. These monies could be used only for transportation including streets, information technology, and DCPS infrastructure developments and to support debt service payments on bonds, notes and other obligations of the District. Funds would remain available until expended.

I urge the Senate to consider the Norton bill favorably. By providing for infrastructure development, it can help reverse the history of necessary neglect and move the District of Columbia toward the shining example that should be set by the capital city of the free world. With so many financial accomplishments now well underway in the District of Columbia, this is the last major piece of the financial puzzle and the District cannot prosper into the future without it.

CASH RESERVE REQUIREMENTS

The District's flexibility in managing its finances is also constrained by its current reserve requirements. As you are aware, in fiscal year 2002, the District fully fund-

ed its Emergency and Contingency Cash Reserve Funds at their maximum required levels, totaling \$248 million, or 7 percent of the local expenditure budget. This was a significant accomplishment, achieved 5 years ahead of the Congressionally mandated time frame. Maintaining the 7 percent level for the District's Cash Reserves required an increase to \$254 million for fiscal year 2003 and \$285 million for fiscal year 2004. In fiscal year 2005 the emergency and contingency cash reserves combined are budgeted to reach \$303 million. This is in addition to the \$50 million in operating cash reserve maintained by the District. If I may, I would like to briefly summarize cash reserve requirements elsewhere as a reminder of how noteworthy the District's performance is in this area.

No other major city has a cash reserve requirement except Denver, which is required to have 3 percent of general fund expenditures in a reserve.

Among States, most have some form of cash reserve or "rainy day" fund. Further,

—the approximate average size of these funds is 5 percent of budget;

—most States have no replenishment requirement, but 6 States require the funds to be replenished over the course of 2, 3, or 5 years; and

—in 21 States, the reserve funds can be used when the State faces a deficit for any reason, and in most other States the funds can be used in the event of a revenue shortfall.

Working with Congress, the District has developed proposed changes to our emergency and contingency cash reserve requirements. These changes, included in the District's fiscal year 2005 Budget Request Act, would reduce the overall requirement from 7 percent to 6 percent (2 percent Emergency and 4 percent Contingency). The proposed changes would modify the requirement for replenishment from a 1-year replenishment to a 2-year requirement with no less than 50 percent being paid back in the first fiscal year after use. In addition, the proposed changes recognize that the District's Home Rule Act requires the District to maintain a separate cash reserve for expenditures associated with debt service payments. This separate cash reserve is in addition to the 7 percent emergency and contingency cash reserves. The proposed changes remove from the calculation of the 7 percent emergency and contingency cash reserve those expenditures associated with debt service for which this separate reserve is already maintained. Finally, the proposal would change the basis of the calculation of the 7 percent for the emergency and contingency cash reserves from local fund expenditures as proposed in the District's upcoming fiscal year budget, to local fund expenditures as calculated in the annual Comprehensive Annual Financial Report.

Even with, what we hope will be congressional enactment of the proposed changes, you can see from the comparison to other States, the District has an exceptionally strong reserve position, but would still have among the most demanding of any jurisdiction in the country with respect to the amount required, the fact that access to these funds is granted only in declared major emergencies or serious revenue contingencies and the replenishment requirements.

CONCLUSION

Mr. Chairman, this concludes my prepared remarks. I request that this testimony be made part of the record. I will be pleased to answer any questions you or the other members may have.

Senator DEWINE. Mayor, you have requested \$9 million in Federal support for a new forensic lab. As a former county prosecutor, I certainly understand the need for good forensic work.

What will be the local contribution for this and what is the total cost of the project? And something you and I discussed the other day—what are the operational cost estimates when the lab is up and running? Have you figured that out yet?

Mayor WILLIAMS. Yes, we have, Mr. Chairman. We estimate that the overall cost will be \$80 million through 2008.

Senator DEWINE. For the construction of the lab itself?

Mayor WILLIAMS. For the planning and the construction, and the District's participation would be over that period. So, for example, in the first year we are requesting \$9 million. The District would contribute \$2.3 million for a total of \$11.3. In 2006, the combined Federal-District contribution would be \$30 million; the same for 2007 in construction. And then in fiscal year 2008, for construction,

commissioning, and the completion, it would be \$8.7. So it would be a partnership.

As I said in my testimony, we are prepared to—and I can't speak for whoever is Mayor at that time, but we are committed to putting in place \$40 million. That would be about \$20 million more than we are spending right now to operate this facility because we believe the benefits to our city, to Federal workers and to visitors alike are more than worth the investment.

Senator DEWINE. So it would be how much per year, Mayor? I am sorry.

Mayor WILLIAMS. Around \$42 million, my people are telling me. So that is about \$20 million more than we are spending now.

Senator DEWINE. For the lab itself?

Mayor WILLIAMS. Right, so we are assuming the operating burden for this facility.

Senator DEWINE. So the use of the lab is just going to go up, as we would expect, as you and I discussed the other day.

Mayor WILLIAMS. Right, because we are going to be doing more than we do now.

Senator DEWINE. Sure. It is going to do a lot more than you are doing now, and your results, we assume, will significantly increase. And if you got a good lab there, what is going to happen is that your prosecutors and your police are going to be able to use it more, and as they use it more, your costs are going to go up.

Mayor WILLIAMS. Right.

Senator DEWINE. Okay.

Mayor WILLIAMS. I would say, Mr. Chairman, we have shown a lot of progress with Chief Ramsey, with the oversight—the Council has been very strong and adamant about this—in improving our closure rate to where it is now leading many other cities. But we still have a long way to go and the forensics lab would really enormously help that effort.

Senator DEWINE. Your current situation now is that you use the FBI lab. That is free to you, is that right, or do you pay for that or how does that work?

Mayor WILLIAMS. I believe it is free.

Senator DEWINE. But you have got limited use of it?

Mayor WILLIAMS. You get what you pay for, right.

Senator DEWINE. Well, I mean in all fairness, it is a limited use, though.

Mayor WILLIAMS. Right, because we are not their top priority, by definition.

Senator DEWINE. Right, and that is just the way it is.

Mayor WILLIAMS. We thank the FBI and we value their partnership. I don't mean to say anything otherwise.

Senator DEWINE. Right, but in all fairness, it is not yours.

Mayor WILLIAMS. Right.

Senator DEWINE. Let me ask you about your request in regard to Federal support to help the District meet its commitment to Metro. Why is this important?

Mayor WILLIAMS. Mr. Chairman, I think it is enormously important because if you look at our Metro responsibilities, as I said before, this is something that benefits not only the District, but it

benefits our visitors, it benefits our Federal workers, it benefits the overall region.

We are paying a disproportionate share here in the District for regular funding compared to Maryland and Virginia because the formula doesn't recognize our peculiar situation, and the structure of the Metro, as well, doesn't. We have a number of stations, for example, that are right within the District's boundary, and the long and short of it is we have an enormous amount of commuter use of our Metro and that is not reflected in the formula.

Finally, as I said in my testimony earlier, the Federal Government has withdrawn support over the years, has reduced its support for Metro, while States have increased support. But we have no State to increase support to compensate for that lack of Federal support. So that is all coming out of the District, some \$210 million.

In terms of actual benefits, we are talking about increased ridership, new bus systems that particularly would allow our lower-income workers—I know the Senate, for example, has been very, very supportive of mothers moving into the world of work, with support for day care. This would allow those mothers the opportunity to have transportation to get to their jobs. So there are enormous benefits to this, as well. I would be happy to go into more detail.

Senator DEWINE. No, no, that is fine.

Dr. GANDHI. And, Mr. Chairman, if I may just add some numbers to what the Mayor just said, we are talking about in 2004 roughly \$163 million of operating expenditures that we have to provide to Metro. That goes to 171, 179, 188, all the way up to 2007.

But more important is the capital needs that we have to provide for, and the needs are something like \$250 million in 2004, double that much, or about \$420 million in 2005, and keep on going to \$468 million in 2007. Obviously, these are enormous needs and we cannot afford to provide that kind of capital funding because we have a limitation. As the Mayor pointed out, we have the highest per capita borrowing in the country, and if we were to go out and borrow more money, it would affect our bond rating. So we are in kind of a catch-22 here.

Ms. CROPP. Mr. Chairman, if you took the capital needs for Metro and the capital needs for our school system alone, there would be no more capital dollars available for any other infrastructure needs in the District of Columbia.

Senator DEWINE. Well, my time is up. I am going to have some more questions, but let me turn to Senator Landrieu.

Senator LANDRIEU. Thank you, Mr. Chairman. I am going to have four questions, if I could, on, No. 1, the imbalance that I would like to get some information on the record on, the structural imbalance; one on the school governance issue; the progress we are making on child welfare; and also back to education and tuition assistance. There may be more, but I would like to try to work through these.

I think, Mr. Mayor, based on my view, having worked with many of you on a variety of different issues, it would be fair to say—and I would like if you would agree or disagree with this—that with all the immediate challenges before the District, the structural imbalance issue is at the core or is essential to find some remedy.

According to the GAO study that was commissioned by Congresswoman Norton and myself which was released last year—the chairman is aware of this study—it is estimated that, first of all, the gap is real and it exists. This is an independent third party, so that was one of the findings. It could be anywhere from \$470 million to \$1 billion.

The other interesting part of this finding said that the District of Columbia cannot raise more revenue; it already has one of the highest taxing structures in the Nation and the region. It also says in this study the District of Columbia cannot lower spending, spending 5 percent less already than other urban areas for comparable services.

It says the imbalance is largely beyond the D.C. officials' direct control. It does acknowledge that some additional management efficiencies could be achieved, but it is quick to say even if you did 100 percent and were perfect in your management, which no city is, and obviously neither is the Federal Government, you couldn't close the gap with management efficiencies. It says the District of Columbia is not the same as other cities. It has special benefits and burdens of being the Nation's Capital.

So given that, and given your testimony, Mr. Mayor, do you agree with this, and what are the one or two steps that we could explore that, in your mind, might be a way the Federal Government could help close that gap? Is it focused on maybe capital outlay needs of the District? Could it be focused in other ways? What would your suggestions be to us? And I am hoping that this Congress could develop a remedy.

Mayor WILLIAMS. Thank you, Senator Landrieu. I agree wholeheartedly with the GAO study. I think in this case where the GAO study has said something without any axe to grind on an objective basis, I think they are right on the money. They have also mentioned, in addition, Senator Landrieu, the fact that we are a higher-cost urban area. They mention that the District has the highest concentration of poverty in the United States.

We have one of the largest extremes in education in our city and in income in our city of any city in the country, and this concentration of poverty presents the District with higher costs, particularly State costs, without the tax base to meet them. So we are overly bonded and we are over-taxed.

I happen to think, chiming in with what Chairman Cropp has said, if we spent all of our money on our schools and on our Metro, we wouldn't have any more debt capacity. I think one of the major ways that the Federal Government can meet this responsibility is to take the measure that has been supported by a number of regional leaders and led by Congresswoman Norton that calls for a regular formula investment in the District, and to take that formula investment and put it into our infrastructure needs.

I think that, No. 1, that will relieve enormous pressure on our budget, and, No. 2, these infrastructure needs really are needs that are, No. 1, regional; No. 2, benefit the quality of life in the District, but also benefit the Federal Government because it benefits our Federal workers and it benefits our visitors. So there is a shared interest in success in that area. So I would strongly support using

these funds to support our debt financing and our infrastructure needs.

Senator LANDRIEU. Well, let me say, Mr. Mayor, we are going to look very closely at that proposal because obviously, based on this study, some remedy has to be proposed. But, again, the importance is to recognize the gap is real, that it is not within the power of city officials to close the gap. So all the reforms that we are putting in place, whether it is financial reform, school reform, environmental reforms in terms of the clean-up efforts underway, or the reforms on child welfare which this chairman has led, are all in jeopardy if this issue is not faced head-on.

So, Mr. Chairman, with all the challenges, I think if our committee could stay focused on this solution, it would be helpful.

I want to outline a particular formula. It could be something like this; it could be something different. But if we thought about taking the problem down into measurable amounts, 50 percent of the gap could be closed by a Federal relief in some way, 15 percent—maybe it is not that high—10 or 15 percent by increased management efficiencies, and 35 percent based on maybe new strategies within the District to increase residents.

One way to close the gap is to bring new taxpayers to the District so that you increase the tax base. The Mayor and the Council, I think, have some strategies in place, and my second question is about one of those strategies, in particular, which is City Build charters.

Mr. Mayor, I want to thank you for your support and efforts.

I wanted to read for the record what the City Build charter initiative is and then submit a longer document. With the help of our committee and with you all, we created a City Build charter school initiative. It is designed specifically to meet the Mayor's goal, shared by the Council, of attracting 100,000 new residents to the District by targeting neighborhoods that have the near-term potential of attracting and retaining new homeowners, particularly those with school-age children, by using the promise of quality schools as an economic development tool to increase the residential and commercial tax base of the District.

[The information follows:]

CITY BUILD CHARTER SCHOOL INITIATIVE

"Improving education is one of the most crucial elements to improving our city. It is key to attracting 100,000 new residents, who want to live and raise children in the District."—Mayor Anthony Williams, Feb. 14, 2003.

WHAT IS THE "CITY BUILD" CHARTER SCHOOL INITIATIVE?

The "City Build" Charter School initiative is designed specifically meet the Mayor's goal of attracting 100,000 new residents to the District by targeting neighborhoods that have the near term potential of attracting or retaining new home owners, particularly those with school age children, by using the promise of quality schools as an economic development tool to increase the residential and commercial tax base of the city.

In the Senate D.C. Appropriations bill for fiscal year 2004, Congress included \$5 million to develop a "City Build" Charter School Initiative. This initial appropriation will be used to create five new charter schools in the District neighborhoods that demonstrate the greatest potential for meeting the goals of the program.

HOW WILL THE NEW SCHOOL SITES BE CHOSEN?

As stated in the text of the appropriations bill, Mayor Williams will be responsible for selecting sites for the five new charter schools. The determination of the neighborhoods and school sites will be made in consultation with the D.C. City Council, the School Board, advocacy groups and community and business leaders in a public meeting. The selection of neighborhoods best suited to help attract or retain 100,000 D.C. residents, will take into consideration the following:

- The number, quality and affordability of the neighborhood schools (public, charter and independent).
- The waiting lists for admission to the areas high performing public, independent and charter schools.
- Recent trends in the neighborhood's real estate market, including the sale and purchase of homes, demand for rental properties and the potential for population growth and increased private investment.

ARE THE "CITY BUILD" CHARTERS THE ONLY NEW CHARTERS AVAILABLE THIS YEAR?

No. Since the passing of the District of Columbia's charter school law in 1996, the District of Columbia's chartering authorities have approved almost 40 charters, earning the District of Columbia the distinction of having the highest concentration of charter schools in the Nation. The "City Build" initiative is designed to further this laudable growth in the use of charter schools as a means of achieving excellence and expanded choice for children and their parents. The District of Columbia's charter school law allows for up to 20 new charters to be created each year. To support these efforts, the Fiscal Year 2004 Appropriation also includes \$8 million for the Charter School Direct Loan program and other charter school support programs, bringing the total Federal support for D.C. charter schools over the last 3 years to almost \$40 million.

WHAT ABOUT PUBLIC SCHOOLS IN THESE AND OTHER NEIGHBORHOODS, DON'T THEY NEED HELP?

Yes. The "City Build" Charter program is only a part of an overall plan for transforming elementary and secondary education in the District. With this in mind, Congress appropriated a total of \$40 million in 2003 for school improvement activities; \$13 million for public school transformation activities; \$13 million for charter school enhancement programs, including the \$5 million for the "City Build" initiative, and \$13 million to provide opportunity scholarships for low income students to attend private schools. The goal of all of these efforts is not to create competition among the various types of schools, but to create a strong synergy around the shared goal of giving parents more choice and every child a chance to succeed. Expanding high quality options allows parents to make the choice that is best for their child and their needs.

WHAT IS THE LONG TERM PLAN?

The Appropriations Committee intends for this to be a 5-year, ongoing appropriation. If funding allows, the goal would be to fund three to five new "City Build" charter schools each year for the next 5 years. As other public and private funds become available and as this pilot program proves successful, opportunities for future "City Build" charters will be explored.

HOW WILL THE PROGRAM BE EVALUATED?

Each year, the Mayor will report to Congress on the effectiveness of the program. Such report should include:

- The academic performance of the students and the overall performance of the schools funded by this initiative.
- The enrollment of schools funded by this initiative.
- The waiting lists for schools funded by this initiative.
- The impact of these schools on the sales and/or purchases of homes as well as rental turnover, specifically by residents with children.
- The impact of these schools on the size of the population of the neighborhood.
- The impact of these schools on the overall vitality of the neighborhood.

At the end of the 5 years, the U.S. Department of Education will conduct an independent evaluation to determine if this initiative could be expanded to other urban areas in need of similar development.

Senator LANDRIEU. So I am urging us to consider this strategy as one of many strategies—tax credits. There could be other school-

related strategies, other economic development strategies in neighborhoods, as part of this structural imbalance challenge. Again, the Federal Government should step up and commit some resources. The city can continue to improve its efficiencies to close that gap, but another very important part of that is what can we do to attract new residents to the city.

So, Mr. Mayor, my question is you have been given under our new law the obligation to identify the potential neighborhoods where these City Build charters may work to attract middle-income families to either stop leaving or return to the District.

Without going into any specific detail, just give some comments about your thoughts about this initiative, your hopes for it. Do we think we could build on it this year and expand it in the years to come? Do you see as an effective tool for trying to get new residents back to the city?

Mayor WILLIAMS. I think City Build is an enormously important initiative because it really gives us more flexibility and focus in improving education, and education is critical to providing the expectations that families have when they move to a city.

The three critical things are operations, public safety and public education. I believe the city has made enormous strides on the operation front in terms of predictability, regularity and efficiency of service. So then that gives you public safety. We have begun making some inroads on public safety. We are running substantially below last year in crime now, and I applaud the chief and our public safety people, and particularly City Administrator Robert Bobb for focusing on the high-crime hot spots.

So that leaves us with public education. The Mayor and the Council are engaged in discussions about the governance of education, bringing in the very best superintendent, and we are moving on that front. The Mayor and the Council have worked together in supporting a robust charter school effort, leading the country per capita in the number of charter schools, and a key part of that is City Build.

We are hoping that, by June, we can receive applications for these City Build schools in targeted neighborhoods and, with City Build, provide one of two important functions, I think, that charter schools can provide our city. The first function is providing parents in these targeted neighborhoods with an additional choice for their children so they don't move out once their children reach school age, and that is absolutely important.

The other area where charter schools, I think, can provide an enormous help is in providing additional choices and flexibility for kids who need additional help. An example of that would be the SEED School, where you have every one of these kids at the SEED School, in this boarding school concept, going to be going to college. Another example is the wonderful Maya Angelou School, where you are targeting kids with special needs.

Charter schools can do that much more quickly, and in many cases more effectively for a lot of different reasons than our regular public schools. So the City Build concept as part of the larger public charter school concept is critical to bringing in these 100,000 new residents, because you are right, Senator. The reason why I

set the goal, in conjunction with the Council, at 100,000 new residents is, yes, we are trying to expand our tax base.

One way you solve this problem is to recognize that the District used to have around 800,000 people in it. So if we could use a business model, we have got a store that is built for 800,000 customers and we have only got about 600,000 and we have got a lot of slack capacity. It is like driving around the bus half empty, so we need more passengers, and the charter schools allow us to do that.

Senator LANDRIEU. Well, I just want to commend you for your effort because almost every city in America is struggling, particularly cities in the South that saw a lot of flight in the 1950's and 1960's and 1970's because of the *Brown v. Board of Education* decision, which we mark and celebrate today.

Mr. Mayor, as you can recall, it was a very unsettling decision back in the 1950's and 1960's, but we have learned a great deal and I think we have matured as a society. New Orleans, for instance, my hometown, had 750,000 25 years ago. Today, it has 450,000 because of the white flight that left the city.

Now that we are 50 years smarter since *Brown* and more mature and more sophisticated, I think that we can devise strategies that will work, that will meet the needs of people and the great aspirations and hopes that all people have, regardless of race or income, about having opportunities for their children and for themselves.

This is part of a very exciting strategy that many cities are beginning to use, and I want to commend the District for using schools as a lure, if you will, to attract people back to the cities, and smart and efficient tax cuts.

My second question—and I thank the chairman for his latitude here, because schools are a great passion and because, I guess, we are marking *Brown v. Board of Education* this week. It is much on my mind and many of the Senators that advocate for fairly radical change and transformation in our school systems.

I read with some disappointment, I guess, the vote last night. Although I have not endorsed any particular plan, Mr. Mayor, as you know, and Council leader Cropp, I would just want to state for the record that I do disagree with the statement that was reported in the paper this morning about the solution being a quality superintendent.

Districts all over this country that think that just getting the right superintendent is the answer to their problem should line up behind the thousands of districts around this country that have brought in top-flight, top-quality, enthusiastic, well-skilled superintendents, only to find them leave after 3 years with very little in place.

I would say that while it is very important to have a sharp superintendent, and obviously tremendous leadership from your principals and your teachers, a system that continues to reward mediocrity, resist transparency, a system that resists accountability, a system that focuses on process and not results, is doomed to failure no matter how many great superintendents or great principals or great teachers.

So without endorsing or supporting any particular plan, I would like, Chairman Cropp, if you would just give a couple of thoughts, and the Mayor, about your continued efforts to try to find a way

to create a new system—I don't know who is going to run it, but a new system that is accountable, that is transparent, that focuses on excellence, that is child- and family-centered and brings hope to the residents of the District and the region, and serves as a model for the Nation.

This will be my last question until the second round, but maybe, Chairman Cropp, you could give a couple of thoughts that you might have.

Ms. CROPP. I don't think, Senator Landrieu, that anyone would disagree with your statement as to what we need for a system and that everyone wants to have a better system, obviously, including the District of Columbia.

The District of Columbia in recent years has gone through so much change. From the time that the Financial Authority came to the District, we have changed superintendents from the original superintendent, to General Beckton, to Arlene Ackerman, who did not really want to be superintendent, then another superintendent. All of this was under strict governance of the Financial Authority—total instability, total change for our school system. How could we expect anything but failure, when we have constant change and instability? We are now moving in a direction where the Board of Education recently has adopted certain standards that would bring about those very things that you just articulated.

It seems to me that one of the things that we need to continue to try to do is bring about stability. Over the past couple of weeks, we have had an opportunity to interview candidates to become Superintendent of Schools, and many of us believe that the superintendent is an important role, along with the classroom teacher who has that direct nexus with the students.

The one thing that we found from every study across the country, even all of the leading superintendents, is that governance is not what dictates what will bring about a good school system. There is an awful lot that is involved in it, and I think we are committed, as we struggle in the District of Columbia to find out what that answer is, to work together.

As we have talked to the superintendents who have come in, they have seen many different governance structures work. But what they need is they need to have people who are committed to educate the young people. They need to have the ability to run the school system and put in the types of programs that are needed, and they need to have the commitment of all of the principals who are involved in this city to say that they are indeed supportive of education.

I have to say that I am pleasantly surprised with the types of candidates that we got to be Superintendent of Schools. We have some of the top, most respected educators in the country who have applied. I think we still have an opportunity, in talking with some of the others, to bring in those individuals. And if we have the commitment of all of the elected leadership and if we have the commitment of that superintendent and if we get down into the bowels of the school system with the teachers who are really interacting and bring about some standards and criteria that we need to educate the type of child that we want to send out into society, then I think we all will be winners.

It is a struggle. If we had the answer, everybody in the country would do it, but I think we are moving along the right way. What I would like to do is to have the school system submit to you some of the new changes that they have instituted within the past probably 3 or 4 months that I think would increase your level of comfort with regard to the direction that the school system is going—very thoughtful and considerate, and I think directly related to the education of our young people.

Senator LANDRIEU. Thank you. I am familiar with some of them, but I appreciate you sending me that additional information. I think the urgency of trying to scale up some of the things that are working in the District is what is on people's minds, not to wait 10 or 15 or 20 years, which is the entire life of a student, but to try to identify quickly the things that are working and scale them up with some urgency, considering the dismal performance of some of the schools not just in this city but across the Nation. To have only 20 percent of children reading at certain levels just robs them of any good future that they might have.

Ms. CROPP. Might I just add that with our budget, the Mayor submitted to Council and the Council approved a recommendation that would improve our early childhood education level. That is one of the main things, I think, that will make a difference because indicators have shown that if a child enters the first grade and they don't know certain basic skills such as their name, their address, their parents' names, or can't count to 10, colors, they are already 3 years behind. And unless they really have an infusion of support, they probably will not catch up. So we are doing some other things budget-wise that will help move our system, too.

Senator LANDRIEU. Mr. Mayor, very quickly, because the chairman has been gracious.

Mayor WILLIAMS. I am a big fan of Chairman Cropp and I think she has done a fantastic job with our Council and our city wouldn't be where it is but for her leadership. I don't know how she manages to keep the Council going, but she does, and she has a unique skill and ability to do it. We just disagree on this issue, and I am confident that as we get through the final stages of the legislative process, her unique skills and abilities and my initiative will allow us to reach a conclusion that will honor the strong voice in our city for democracy.

I respect that the School Board was the first elected board in the city—I mean, the first elected anything in the city on a home rule basis. It has got to have more than just simple significance; it has got to have some kind of influence. Parents have to have a way to redress their grievances, and the board ought to be—and the Council has spoken to this—the board ought to be more about policy and not about nitty-gritty, in-the-weeds operations.

I think we can do this and at the same time do two important things, and this is why I believe strongly that some change is needed. One, we really need one point of contact in the District government to manage the systems because the systems in the schools are a mess. There is no other way of looking at it. I mean, I know what a mess is because I saw a mess when I was CFO and I have seen a lot of messes as Mayor.

Second, the needs of children. We really need one point of contact in the government to focus on the needs of these kids. Many of these kids don't have any home. So the community, through the government in partnership with the faith community, in partnership with business and in partnership with non-governmental organizations—the government, as the lead facilitator, is in loco parentis for these kids.

Finally, when you say the studies don't really correlate any real outcome when it comes to governance, when you take all the schools systems as a whole that is true. But if you compare high-impact, screwed-up urban systems with high concentrations of poverty, there is no question that you will get better outcomes that lead to better test scores if you change the governance structure. I think you could bring God in here and if you don't have the right environment for success, it won't be successful. But that is just my opinion and the Council Chair and I respectfully disagree.

Senator LANDRIEU. Thank you, Mr. Chairman.

Senator DEWINE. Dr. Gandhi, one criticism of the GAO report on structural imbalance is that the District has significant medical billing and claims management problems. How are you working to address this problem?

Dr. GANDHI. I think we have faced a substantial problem particularly in the area of Medicaid reimbursement. In the past, we have not had any infrastructure to be able to identify document claims, everything that was coming to the city. We have been working at it for the last at least 3 years.

Under the former City Administrator John Koskinen, and now under Robert Bobb, there is a special office that does nothing but make sure that Medicaid is properly accounted for, properly monitored, and that we do claim everything that is coming to the city. We hope that we have taken care of our past sins, when we had a major write-off last year, and we want to be very vigilant about that. The first thing that I told Mr. Bobb when we had our meeting when he came to the city is that there are three things that he should concentrate on—Medicaid, Medicaid and Medicaid, because that is a substantial part of our budget.

Senator DEWINE. Mayor, you requested \$15 million for security costs related to special events in the city because it is the Nation's Capital—you requested, actually, \$25 million and the President requested \$15 million. Do you want to discuss that difference, that \$10 million difference there?

Mayor WILLIAMS. Right. The big difference, Mr. Chairman, is the inauguration. We estimate that, post-September 11, the inauguration is going to be significantly higher in its exposure to us than we have had in the past because of the additional security needs and in order to do it in a way that balances the need to have an open inauguration and a safe city and, needless to say, continuity of government.

Senator DEWINE. What does the inauguration normally cost?

Ms. CROPP. Six million dollars.

Mayor WILLIAMS. I think it was half that amount, right.

Ms. CROPP. In past years, it was budgeted at \$6 million.

Senator DEWINE. So you figure with the new environment, we are talking a lot more money than that?

Mayor WILLIAMS. Right.

Ms. CROPP. The challenge, Mr. Chairman, is in this year's budget we were not even given the \$6 million that had been budgeted and funded in prior years.

Mayor WILLIAMS. Some of the costs that we are looking at are overtime, for example, bringing in outside jurisdictions, some IT expenses related to coordinating all of this. Public works expenses are often overlooked, but they are around \$1 million, and fire and EMS as well. So I think it is a fairly conservative, objective request, given what we are looking at.

Senator DEWINE. Chairman Cropp, you highlighted the need to provide \$8.6 million above the President's request for the Tuition Assistance Grant program. What would be the consequences if we were unable to provide these additional funds?

Ms. CROPP. Many of our students have been able to benefit from that program. It would be the loss of getting education for a lot of citizens in the District of Columbia, and that is probably the worst cost.

Senator DEWINE. It has been a very successful program.

Ms. CROPP. It has been extremely successful, and the return cost for that will be much greater than the initial lay-out.

Senator DEWINE. Well, I think we have gone on and kept you all quite a while. We appreciate it very much.

Mary, a last question.

Senator LANDRIEU. Thank you.

Just one more, Mr. Mayor and Chairman Cropp, on the child welfare issue on which we are making progress. Again, I just thank you. We have got a long way to go, but with the establishment under the chairman's leadership of the new family court, the new principle of one judge, one family, the coordination of city services and court services to streamline and make sure that children are not lost in the system, that they are identified early, and seamless services brought to them with a focus on permanency, either reunification with their family, temporary foster care, and then long-term permanency through adoption or kinship adoption, that is a system that we are trying to put forward throughout the whole country, and in many ways in the world.

But for the purposes of this hearing, I understand that the Council cut \$23 million out of child welfare and put it in reserve. I wanted to ask you, Madam Chair, why, and ask the Mayor if you would comment on that situation and what you are doing or where you are in the process of, I think, a new hiring of the head of this important office.

Ms. CROPP. The Council believed that there is a need for this program to continue and to be expanded. In fact, the money put in the contingency reserve is somewhat safeguarding those dollars.

What the budget showed, as presented to the Council, was that there was extreme growth in the area of adoptions and foster care success, something that we all want to happen. And while we saw extreme growth of many millions of dollars in that particular, very important area, we also saw growth in the corresponding component of that program that says that there wouldn't be as many children left because you have put the children in an adoption-type program.

The Council felt strongly that the program is of such importance that we wanted to err on the side of caution, and rather than not have the necessary dollars there for the side of the program that would deal with foster care, we would put the money in a contingency fund so that the city could have access to it if it was needed. But we didn't want the money just languishing there if there was no need. But if there is need for it, then the Mayor would have the ability to draw down. So it is in a reserve for that particular purpose.

But if you look at the budget and you look at the line of children who are in foster care and then you look at the line of children for adoption, the adoption line is going up significantly, which means that the other side ought to go down. But it went up significantly, also, so there was a disconnect there. It was a non-sequitur. So then we said, well, let's put the money in contingency because we wanted to make sure that the dollars would be available if, in fact, there was a need.

Senator LANDRIEU. Mr. Mayor.

Mayor WILLIAMS. If you look at the growth in our budget, the major elements of growth have been really four-fold. That is what has pushed us up at an abnormal level. It isn't sustainable, and I don't think, as you have heard from Nat Gandhi's testimony, it is something we are planning on in the future.

One is Medicaid, and the chairman asked a question about that. One was debt service. We have talked about the structural imbalance. One was operating costs for capital projects put in the operating budget. And one was court-ordered compliance.

I am looking at what we need to do with this and I am going to certainly be working with the Chair to make this work, but I am very deeply concerned because our child welfare system is in a very fragile state. We have got a number of things, from caseload requirements, to the family team meetings that have been requested, some of the services for these kids that we want to make sure that we keep in place.

We have moved from an utter disaster to a point where the court monitor came in at one of my press conferences about a month ago and said we are now about equal to other States. Well, that is enormous progress. We don't want to lapse back to where we were. We want to keep going in a positive direction. So I want to work with the Council to see that we are justifying to them that these funds are being used efficiently and we get them to these kids, and I pledge to do that in every way I know how.

CONCLUSION OF HEARINGS

Senator DEWINE. Well, we thank you very much, Mayor and Dr. Gandhi and Chairman Cropp. Thank you very much for your good work and we look forward to working with you. The budget is always tight. There is never enough money, but we look forward to working with you.

Thank you.

[Whereupon, at 11:20 a.m., Wednesday, May 19, the hearings were concluded, and the subcommittee was recessed, to reconvene subject to the call of the Chair.]